Trade and Investment Monitor

Special Feature:
Canada's Trade and Investment Linkages with Europe

Team Canada inc ✦ Équipe Canada inc

2001

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Table of Contents

	Page
■ Main Messages	3
■ Part 1	
- Section A: Canada's Trade Performance: An Overview	4
- Section B: Trade in Services	28
- Section C: Foreign Direct Investment	42
■ Part 2	
- Special Feature: Canada's Trade and Investment Linkages with Europe	59
■ Appendix	87

Part 1: Main Messages

- Canada's exports continued to register strong performance in 2000 driven by strong economic growth in the U.S., a weak Canadian dollar and the North American trade agreements. The data to date, point to a significant slowdown in trade flows in 2001 as the U.S. economy decelerates.
- The U.S. accounts for an increasingly large share of Canadian merchandise exports. The importance of non-resource based products in Canadian merchandise continue to increase.
- Although services account for over two-thirds of our GDP, they only account for approximately 13% of trade and this share is declining. Commercial service exports however, have showed solid growth as Canada's share of world commercial services trade increases.
- Both inward and outward FDI boomed in 2000, driven by a boom in cross-border mergers & acquisitions (M&As). Canada's share of North American FDI continued to fall in 2000, dropping to 13.2%. This declining share is partly due to our declining share of U.S. direct investment abroad (DIA) and partly to the fact that the U.S. is attracting a greater share of North American-bound investment.

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Section A
Canada's Trade Performance: An Overview

Highlights

- Real exports and imports continued to grow at a rapid pace in 2000, but real imports grew at a significantly faster pace. All signs point to a significantly weaker performance in 2001.
- The current account registered a record surplus, driven by a huge surplus in merchandise trade.
- Canada's share of world merchandise exports continued to grow.
- International trade continues to outpace internal (inter-provincial) trade, driven by strong demand in the U.S. market, a depreciating dollar and increased specialization.
- Canadian exports continue to shift more towards non-resource based industries, and the U.S. share of Canada's merchandise exports continues to grow.
- The average size of the Canadian exporter is increasing.

In 2000, Canadian real imports outpaced exports

- Growth of real imports of goods and services picked up significantly in 2000, reaching 12 percent, from 9.4 percent a year earlier.
- On the other hand, growth of real exports dropped slightly to 9.6 percent, from 10 percent in 1999.
  - Net real exports contributed negatively to economic growth in 2000, a reverse of the situation in 1998 and 1999.

Annual Growth of Real Exports and Real Imports of Goods and Services

Real Exports & Imports of Goods & Services, $ Billion

	1996	1998	1999	2000
Exports	275	322	354	396
Imports	251	305	334	374

Source: Compilations based on Statistics Canada data

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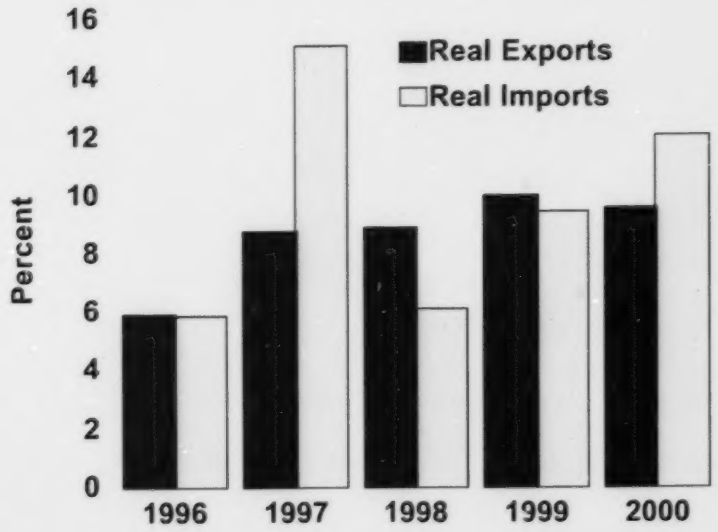

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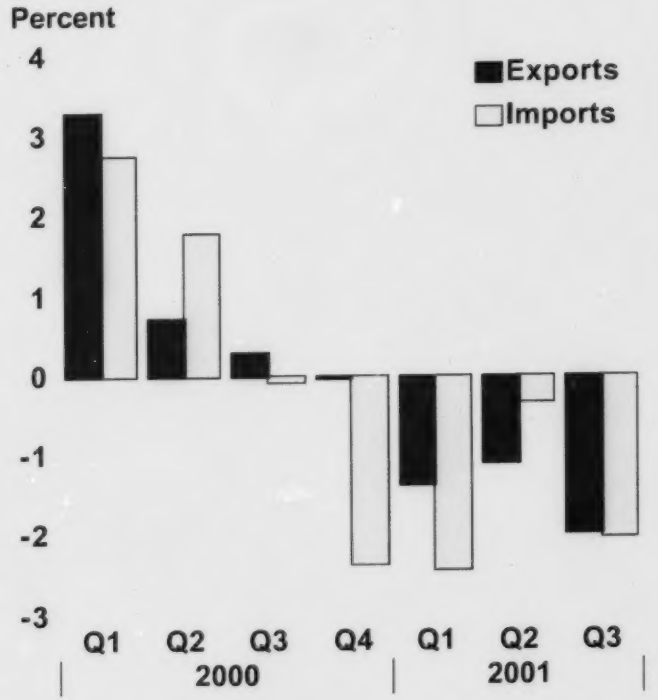
In 2001, real exports and imports declined

- Real exports and imports shrank over the first three quarters of 2001, declining by 4.4 percent and 4.7 percent respectively.
- This has largely been a result of the economic slowdown in the U.S.
  - Recent events and more pessimistic forecasts for the rest of 2001 give reason to believe that the rest of the year may be more negative still.

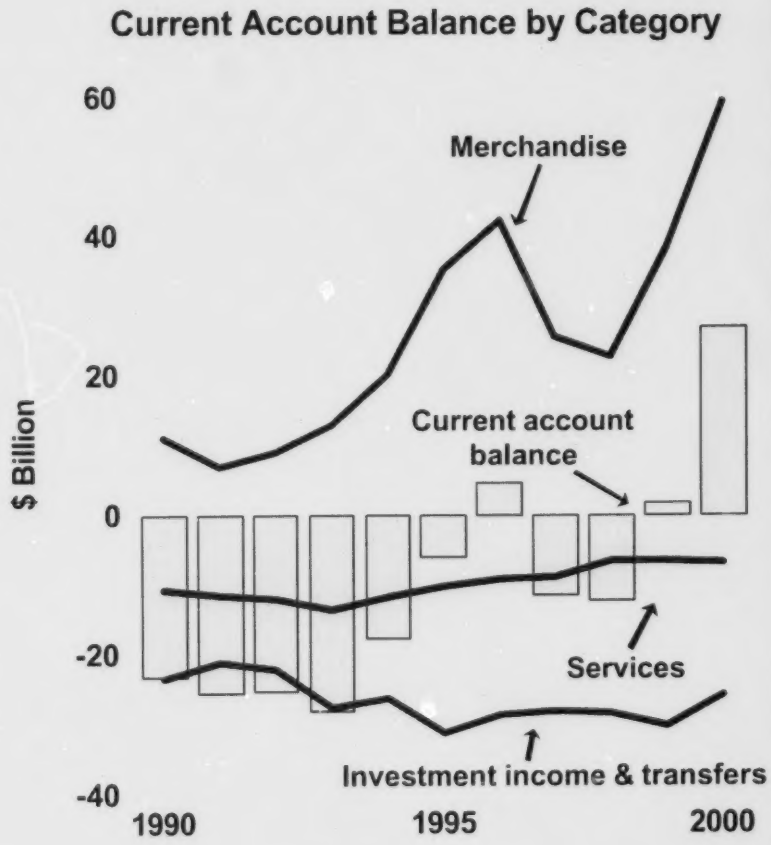
Quarterly Growth of Real Exports and Real Imports of Goods and Services



Source: Compilations based on Statistics Canada data

The current account surplus hit record highs in 2000...

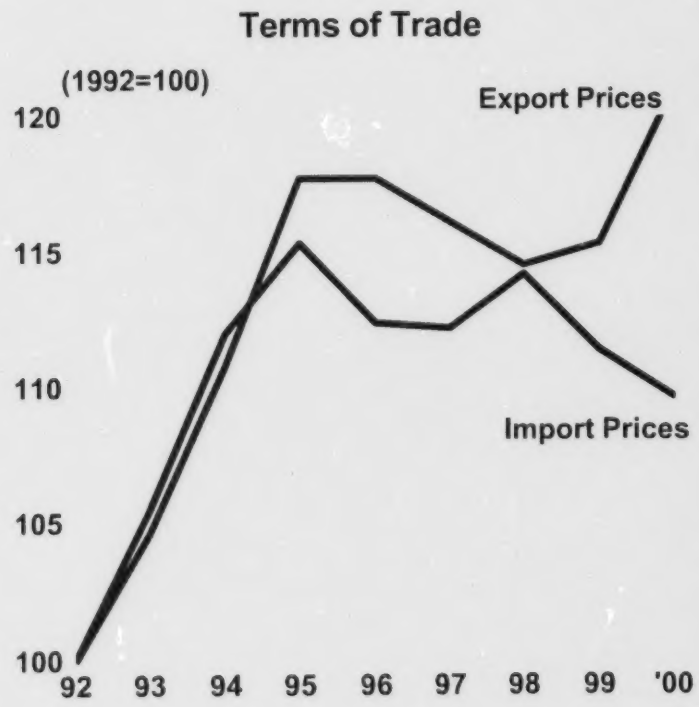
- Driven by a booming merchandise trade surplus that reached nearly $60 billion in 2000, the current account balance jumped to a record surplus of $26.9 billion, an increase of $25 billion from the small surplus registered in 1999.
  - Income from investments and transfers also increased substantially in 2000, with the deficit in that account narrowing from $30.2 billion in 1999 to $25.7 billion in 2000.
  - The services trade deficit remained relatively unchanged at $6.7 billion.
- The current account surplus has seen a slight reduction of $2.4 billion through the first three quarters of 2001.



Source: Compilations based on Statistics Canada data

...as export prices rose dramatically

- In 1999 and 2000 export prices and import prices diverged with export prices rising sharply, gaining 6 percent, while import prices fell by 4 percent.

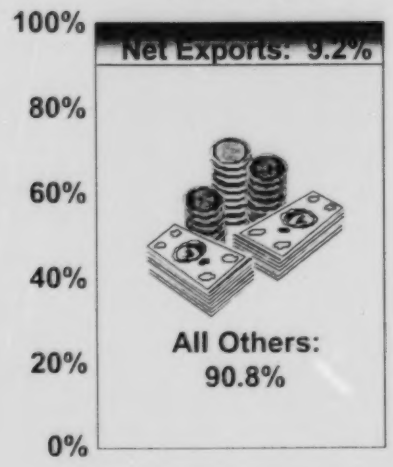


Source: Compilations based on Statistics Canada data

Trade made an important contribution to Canada's economic performance in the 1990s

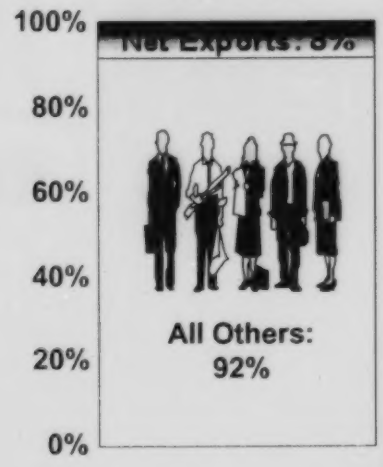
- Between 1990 and 2000 increases in net exports directly accounted for 9.2 percent of the increase in real GDP and 8.0 percent of all net new jobs (close to 140,000 jobs) created in Canada.
  - Much of this contribution came in the first half of the 1990's. On the other hand, in the second half of the 1990's, real exports on average, grew at the same pace as real imports making no significant contribution to economic growth.
- Increases in trade also contribute indirectly to real income and job creation via increased competition, specialization, lower prices and productivity improvements.

Contribution to Economic Growth 1990-2000



Average Annual Growth of Real GDP, 1990-2000: 2.7%

Contribution to Job Creation 1990-2000



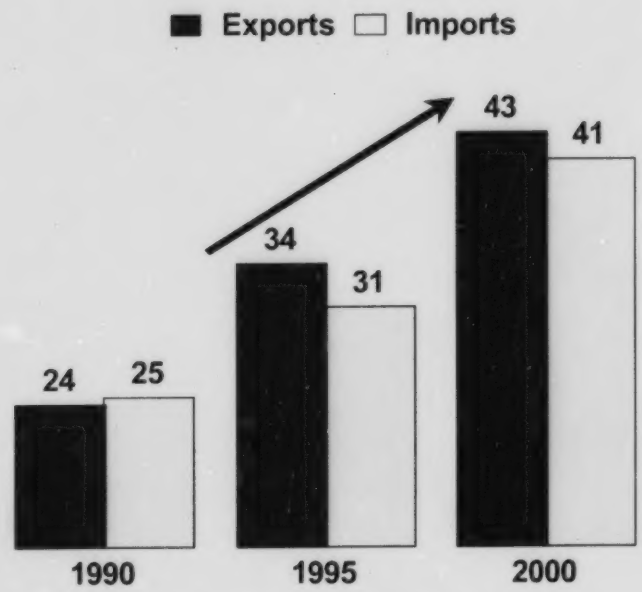
Net Jobs Created, 1990-2000: 1,744,533

Source: Compilations based on Statistics Canada data

Canada's outward orientation continued to rise...

- **Canada's trade orientation (ratio of exports and imports to GDP) continued to soar in 2000 reaching 84 percent — 43 percent for exports and 41 percent for imports.**
  - **An increase of 35 percentage points in trade orientation since 1990.**
  - **Canada's share of G7 exports far exceeds Canada's share of G7 GDP indicating more openness than other G7 countries.**

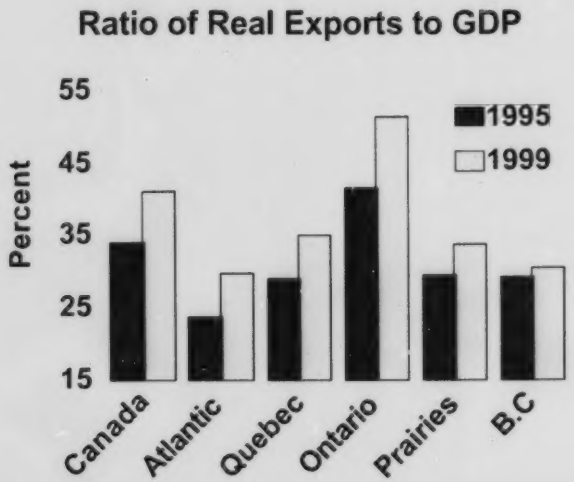
Ratios of Real Exports and Imports to GDP (Percent)

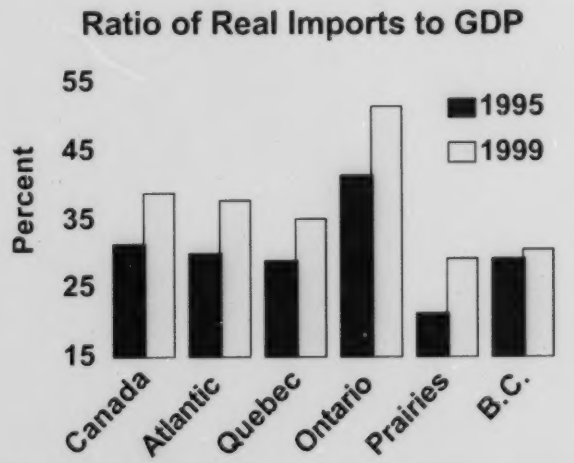


Source: Compilations based on Statistics Canada data

...and does so across all provinces...

- The rapid surge in export orientation and import penetration in the 1990s was pervasive across all Canadian provinces.
  - Ontario remains, by a considerable margin, the most outward-oriented province — both imports and exports.
  - The Atlantic provinces experienced the most rapid growth in trade orientation in the 1990s, driven by strong growth in exports.
  - B.C. had the weakest trade performance in the 1990s and by 1999 had the lowest trade orientation of any Canadian region.
    - This is a result of the still lingering effects of the Asian crisis on B.C.'s imports and low commodity prices in general.

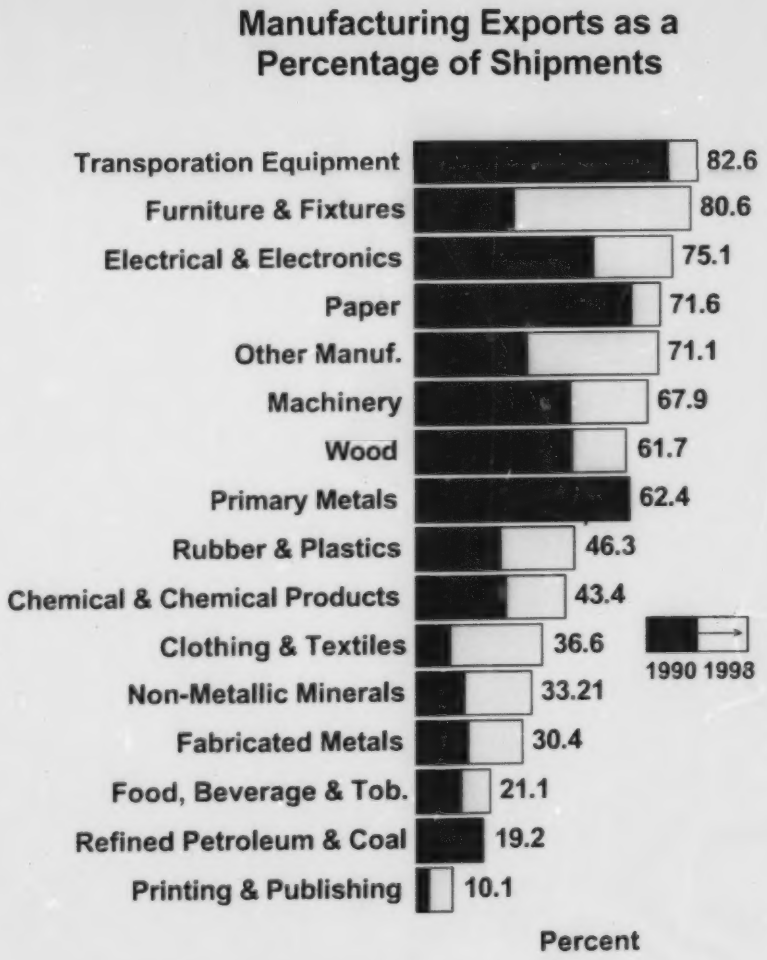




Source: Compilations based on Statistics Canada data

...and for nearly all manufacturing industries

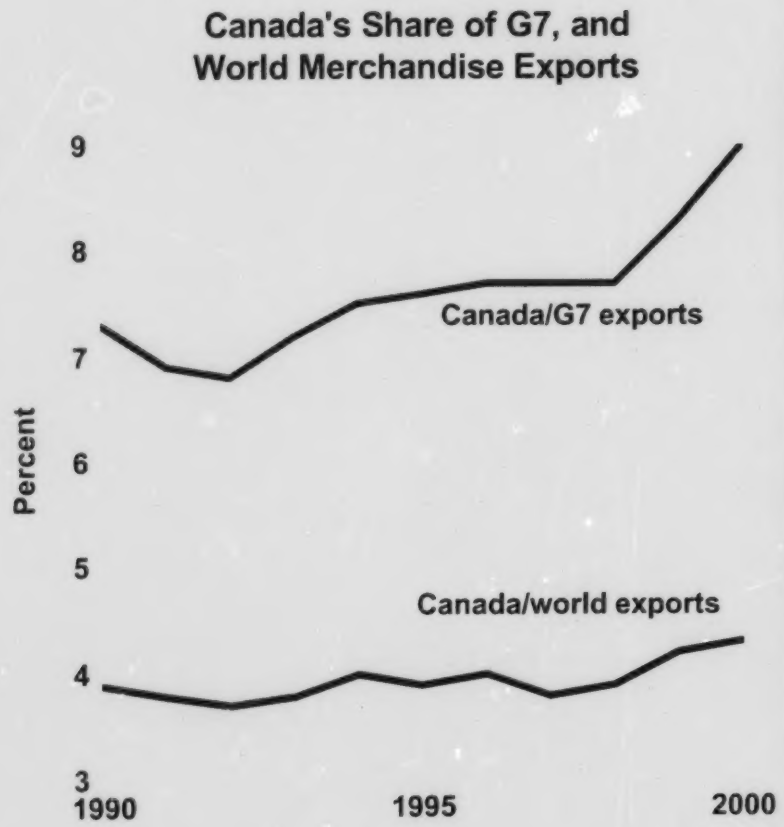
- Nearly every industry experienced an increase in export orientation over the 1990s.
  - Only Primary Metals and Refined Petroleum saw a decrease in export orientation, likely a result of low commodity prices and weak performance of the Asian economies in the later part of the 1990s.
  - Half of Canadian manufacturing industries export more than 50 percent of their output.
- Furniture & Fixtures and Clothing & Textiles, experienced the greatest increase in export orientation over the 1990s, driven by rapid transformation towards increased cost competitiveness and improved productivity after the implementation of the FTA as well as the strong U.S. economy.



Source: Compilations based on Statistics Canada data

Canada's share of global exports increased significantly in recent years...

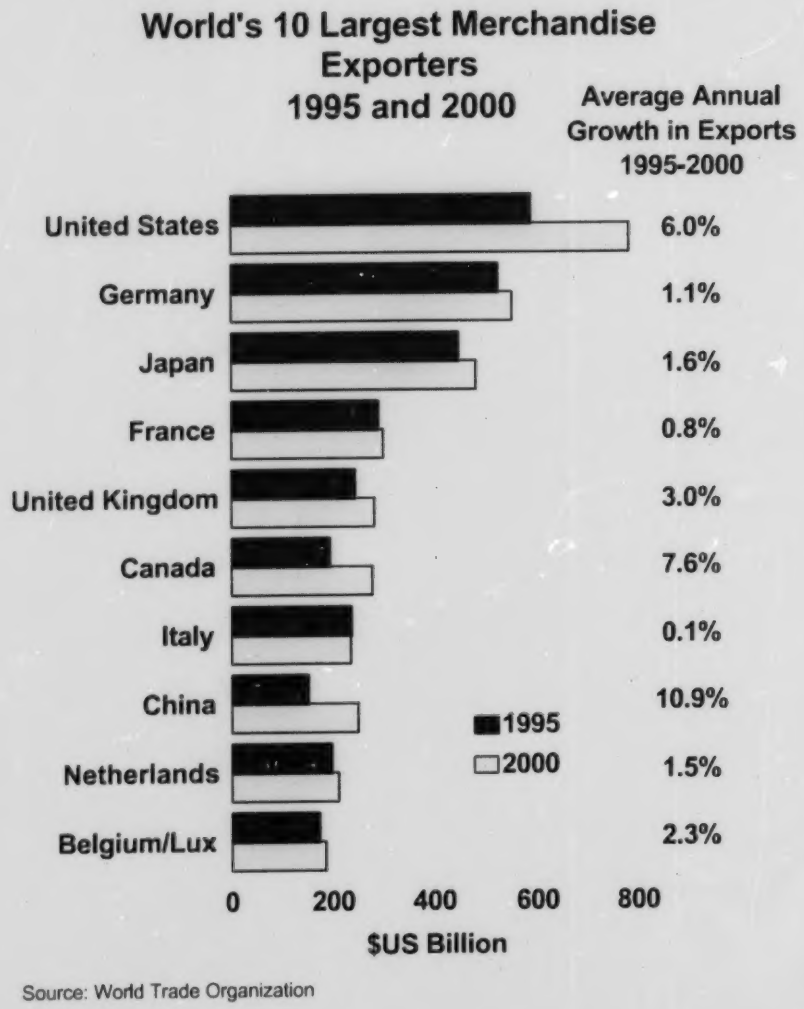
- Canada's share of G7 exports has increased by 1.7 percentage points since 1990, reaching 9.2 percent in 2000.
- Canada's share of world exports increased from 3.9 percent in 1995 to 4.3 percent in 2000.



Source: Compilations based on data from the World Trade Organization.

...as Canada became the 6th largest global exporter

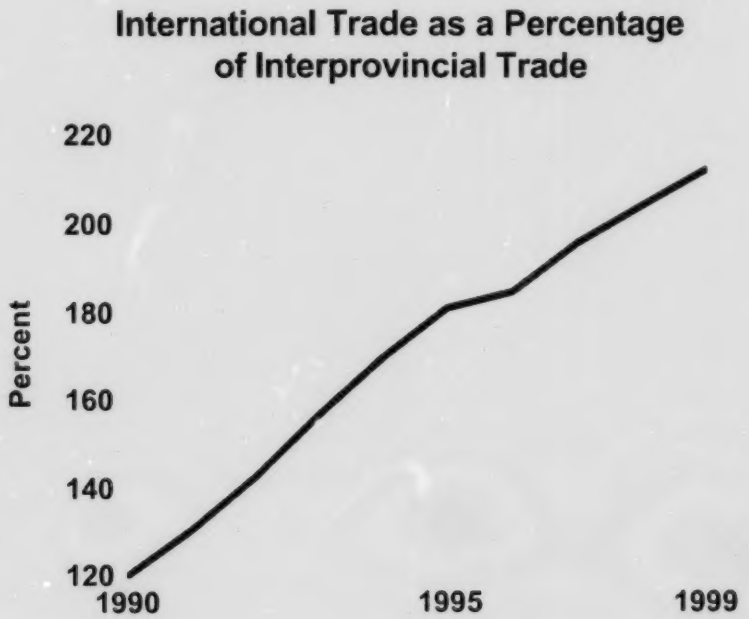
- Canada is now the 6th largest exporter in the world having overtaken the Netherlands in 1996 and Italy in 2000.
  - Furthermore, Canada's average annual growth rate of exports of 7.6 percent far exceeds all the 10 largest exporters, except China.



Source: World Trade Organization

North-South trade linkages continue to expand faster than East-West linkages...

- International trade is now more than twice as large as internal trade and continues to expand at a more rapid pace than internal trade.
  - The ratio of international trade to interprovincial trade steadily increased from 120 percent in 1990 to 212 percent in 1999.
- Stronger trade linkages with the U.S. for every province have been driving this trend.



Interprovincial & International Trade, $ Billion

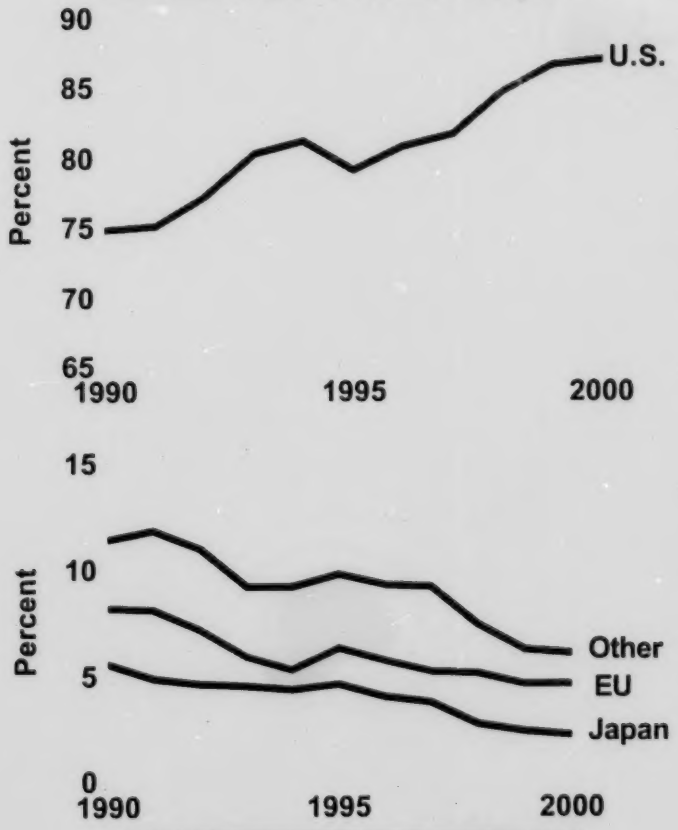
	1989	1995	1999
Interprovincial	298	299	353
International	341	541	751

Source: Compilations based on Statistics Canada data

...as the importance of the U.S. market for exports continued to rise in 2000...

- Over the past decade, the U.S. share of Canadian merchandise exports has increased by more than 12 percentage points from less than 75 percent in 1990 to more than 87 percent in 2000.
- The share of all other destinations fell over the same period, especially Japan, which has yet to fully recover from its economic difficulties.

Geographic Distribution of Canada's Merchandise Exports



Canada's Total Merchandise Exports, $ Billion		
1990	1995	2000
152	265	412

Source: Compilations based on Statistics Canada data

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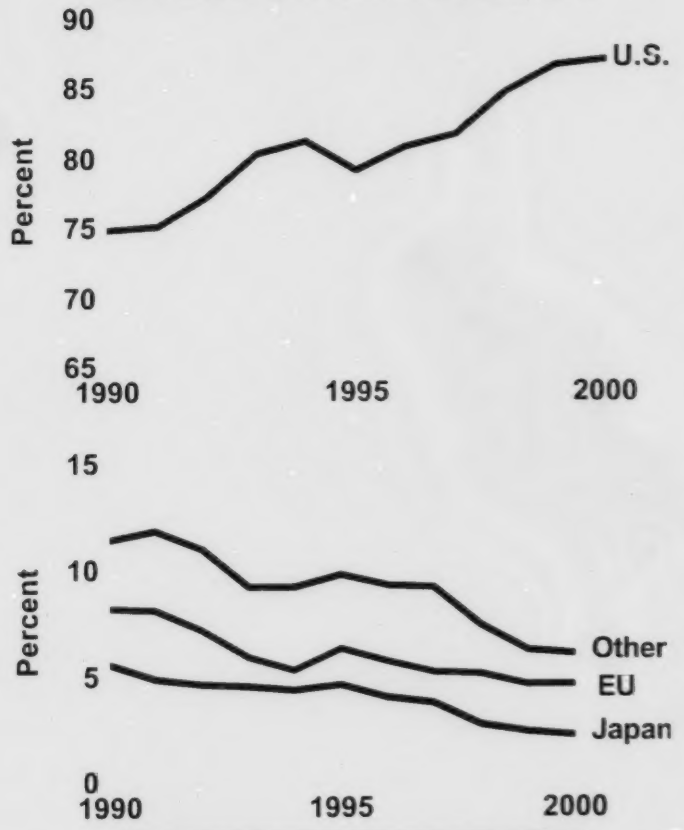

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Source: Compilations based on Statistics Canada data

...driven by strong U.S. demand...

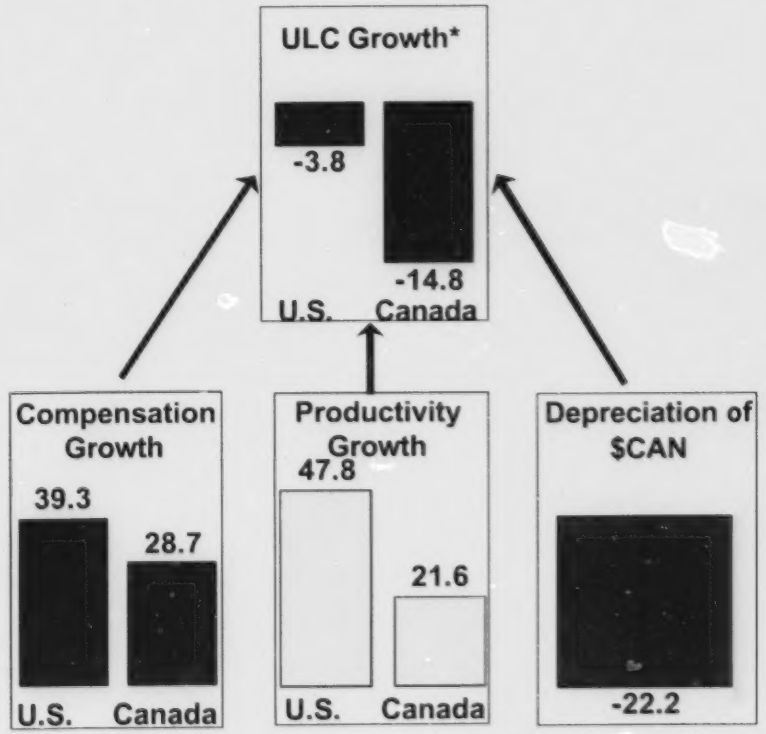
- There has been a very strong correlation between the growth rate of total U.S. merchandise imports and Canadian merchandise exports to the U.S. over the nineties.
  - In 2000, growth in Canada's exports to the U.S. fell somewhat short of total U.S. import growth resulting in a slight decline in our share of U.S. imports.
  - The slowdown in the U.S. economy is forecast to continue, at least until the middle of next year. This does not bode well for the performance of Canadian exports, as well as the Canadian economy.

Growth Rate of U.S. Merchandise Imports and Canadian Merchandise Exports to U.S.

...and the declining dollar

- In the 1990s, Canada's unit labour costs (in U.S. dollar terms) declined by 14.8 percent compared to a 3.8 percent reduction in the U.S.
- The depreciation of the Canadian dollar was entirely responsible for Canada's improved cost position in the 1990's.
  - Between 1990 and 2000, the Canadian dollar depreciated by 22.2 percent.
  - The lower rate of growth in Canada's hourly compensation in manufacturing was more than offset by our relatively poor productivity performance.
- Canada's recent export expansion and improved trade performance will not be sustainable in the longer run, without a substantial improvement in our relative productivity performance.

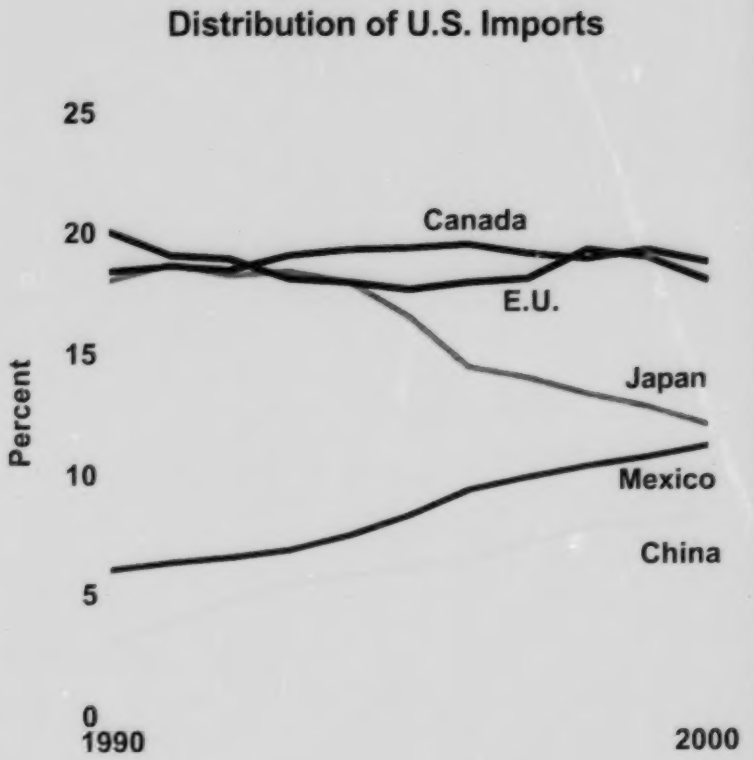
Cumulative Change in the Components of Unit Labour Costs (ULC) in Manufacturing: Canada and the U.S., 1990-2000 (Percent)



*ULC growth in U.S. dollars
Source: Compilations based on data from U.S. Bureau of Labor Statistics

Despite the merchandise export boom, Canada's share of U.S. imports remained relatively stable in the 1990s...

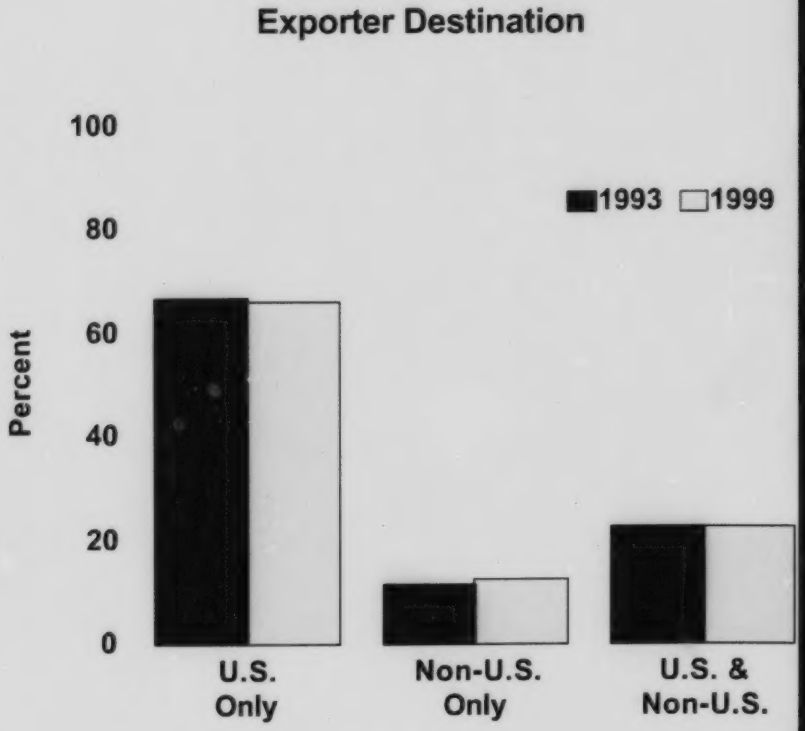
- Canada's share of U.S. imports, like the E.U., has been relatively stable over the 1990s.
- Over the same period, the shares of Mexico and China have increased dramatically.
  - Mexico's share of U.S. imports increased from 6 percent in 1990 to more than 11 percent in 2000.
  - China's share increased by a similar amount, rising from 3 percent to 8 percent.
- Japan's share dropped from 18 percent in 1990 to 12 percent in 2000.



Source: Compilations based on U.S. ITC data

...and there has been a slight decline in the share of exporters focusing only on the U.S.

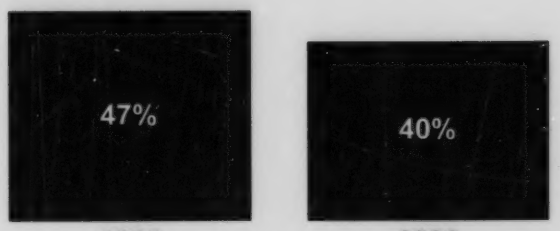
- Despite the large increase in exports going to the U.S., there has been a slight fall in the portion of establishments exporting only to the U.S.
  - In 1993, 66.5 percent of establishments exported only to the U.S. and this percentage had declined slightly to 65.7 by 1999. The share of establishemnts exporting only to non-U.S. destinations increased from 11.3 to 12.1 percent.
  - The total number of exporters to all destinations, however, has increased significantly from 23 thousand in 1993 to 29 thousand in 1999.
  - This suggests that exporters may first venture into the U.S. market before diversifying to other destinations.



Intra-firm trade accounts for a large but declining share of total Canada-U.S. trade

- The share of intra-firm trade in total Canada-U.S. trade has declined substantially.
  - Intra-firm share of exports declined from 47 percent in 1983 to 40 percent in 1998 while for imports it dropped from 51 percent to 36 percent.
  - The two free trade agreements, FTA and NAFTA, might have facilitated trade expansion among firms within a given industry.

Canada - U.S.
Intra-firm Exports



Canada - U.S.
Intra-firm Imports

Source: U.S. BEA

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The U.S.'s share of our imports declined sharply in 2000

- U.S.'s share of Canada's total merchandise imports dropped sharply in 2000, from 67 percent to 64 percent, compared to a recent peak of 68 percent in 1998.
- Imports from Mexico, China and other East-Asian economies rose sharply in 2000.

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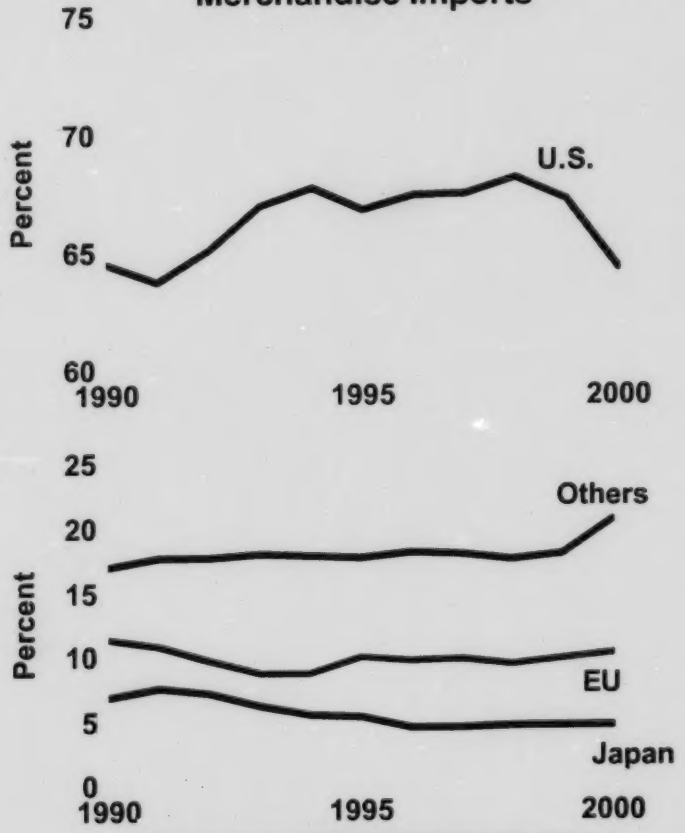

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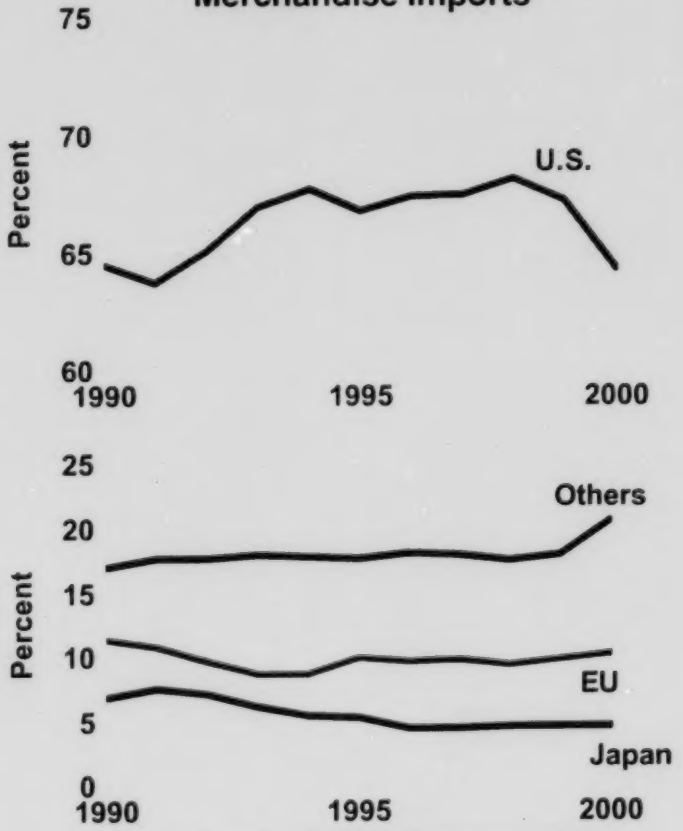

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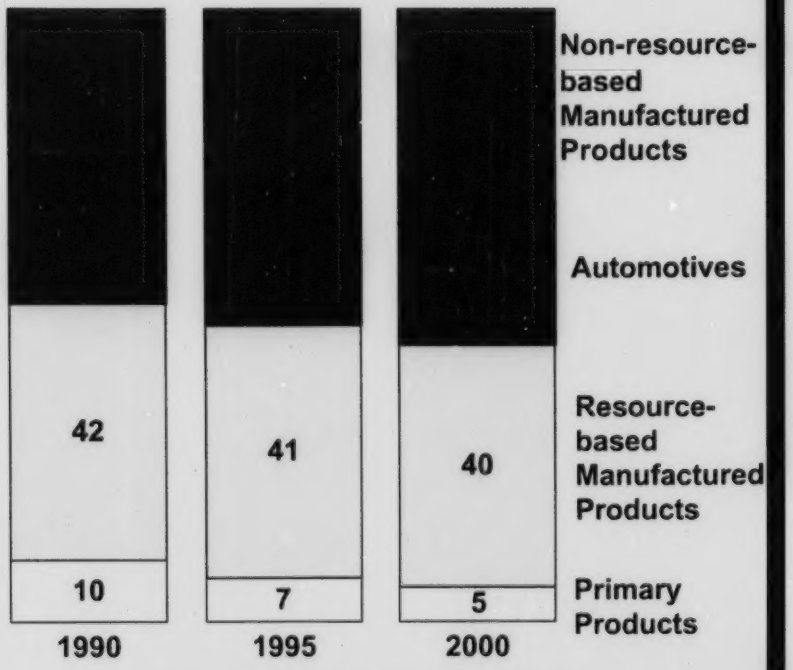
Non-resource based exports have increased steadily...

- The share of Non-resource-based Manufacturing products (including autos) has increased by 7 percentage points in the 1990s, now standing at 55 percent of total merchandise exports.
  - This was led, in large part, by a boom in the exports of electrical and electronics products.
  - The share of Automotives remained at 24 percent through the period.
- On the other hand, shares of Primary Products declined by half to 5 percent. The share of Resource-based Manufactured Products declined by 2 percentage points from 42 percent to 40 percent.

Distribution of Canada's Merchandise Exports by Industry (Percent)



Canada's Total Merchandise Exports, $ Billion		
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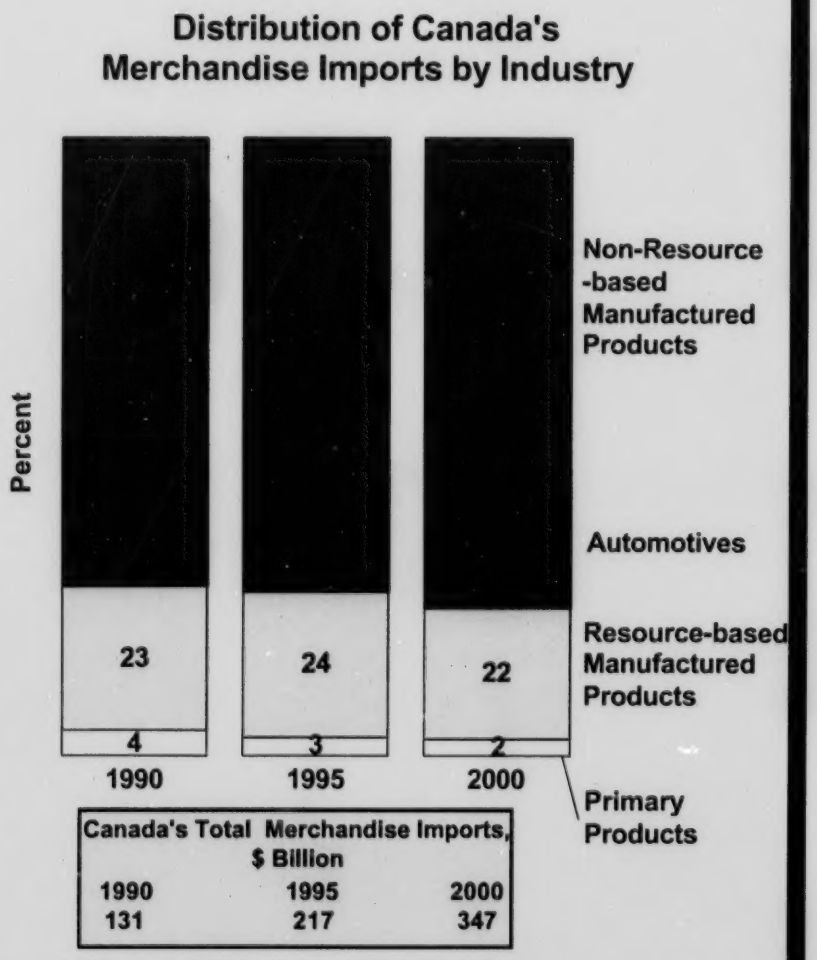
...as well as for imports

- Similarly, the share of Non-Resource based imports (including autos) increased over the 1990s, largely at the expense of Primary and Resource-based exports.



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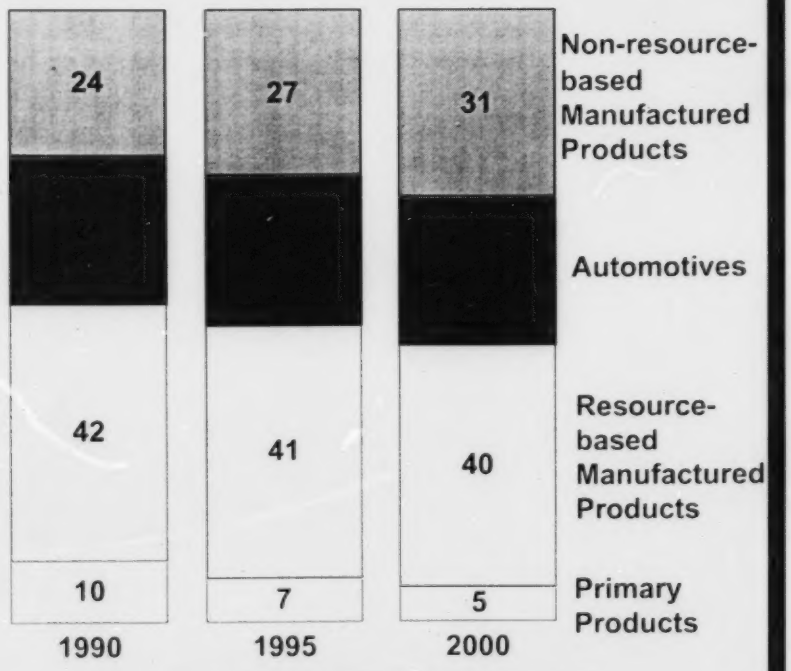

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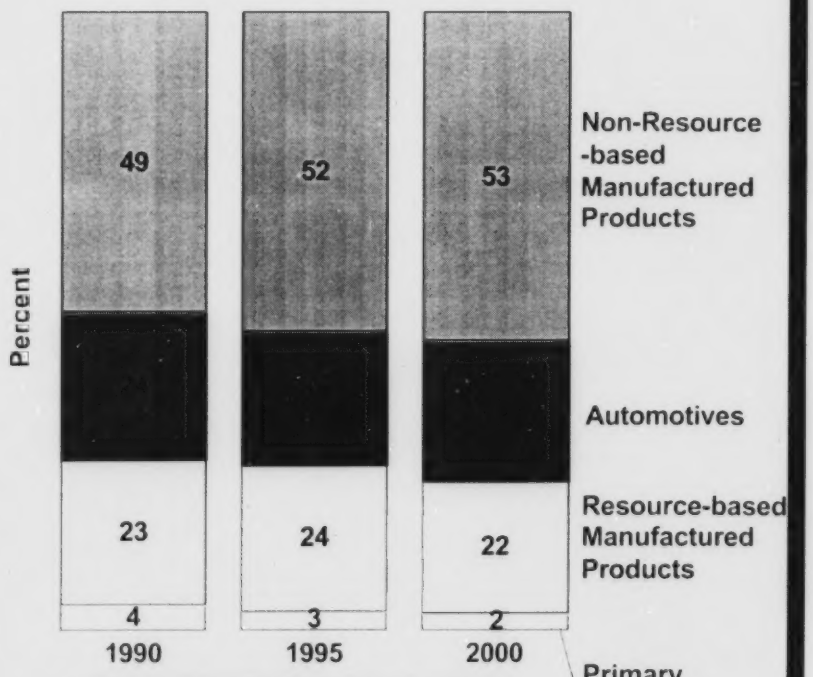

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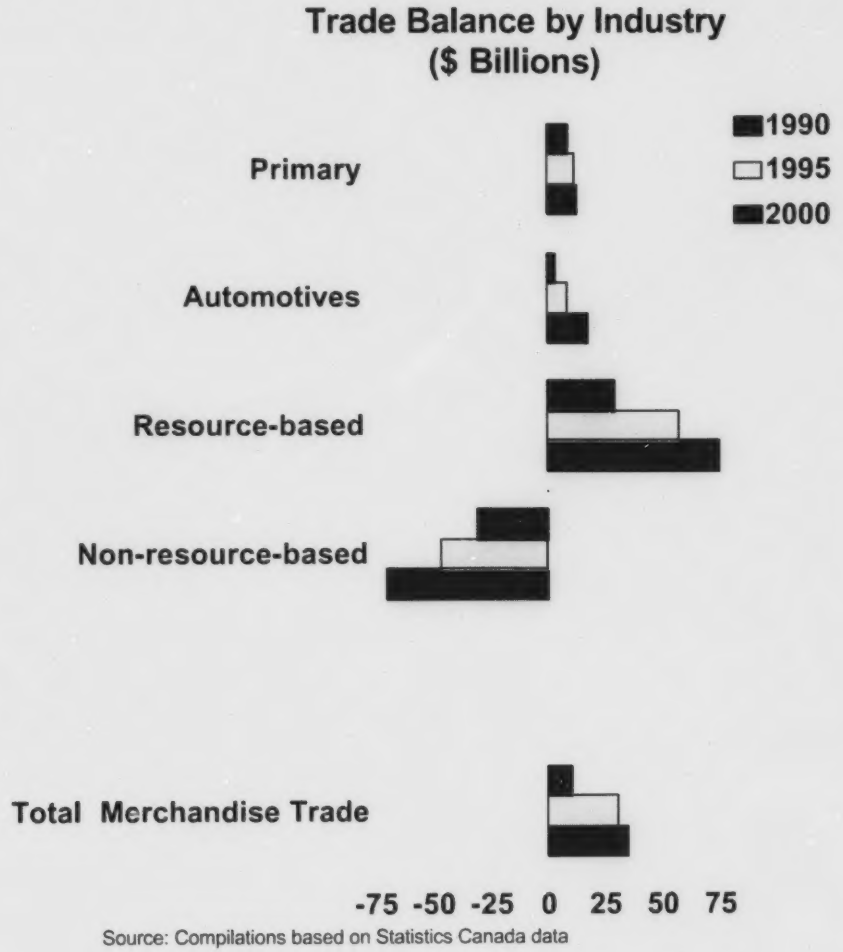
1990	1995	2000
131	217	347

Source: Compilations based on Statistics Canada data

Canada's competitive advantage in resources and resource-based products deepened in the 1990's

- Resource-based manufacturers, Automotives, and Primary goods registered growing surpluses in the 1990's.
- Our deficit in Non-resource-based manufactured products increased from $30 billion in 1990 to $70 billion in 2000, partly offsetting the large surpluses in other products.
- The trends in trade balances may reflect the deepening of our comparative advantage position.

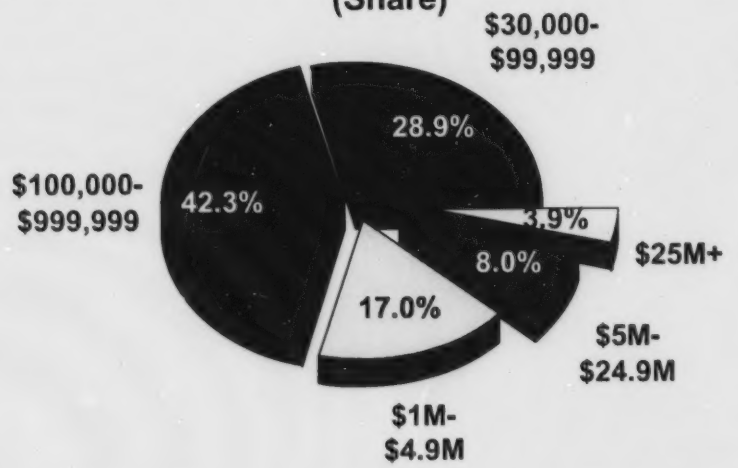


Source: Compilations based on Statistics Canada data

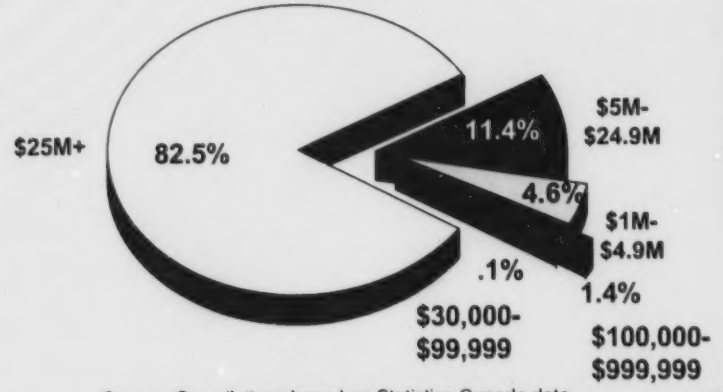
A few large exporters account for the majority of Canada's exports

- Exporters that export more than $25 million annually account for only 3.9 percent of total exporters in Canada but account for 83 percent of the value of exports.
  - In fact, the 50 largest exporters account for 46 percent of Canada's total exports.
- Exporters that export less than $1 million annually make up over 70 percent of the exporter population in Canada while accounting for only 1.5 percent of exports.

Number of Exporters by Size of Exporter, 1999 (Share)



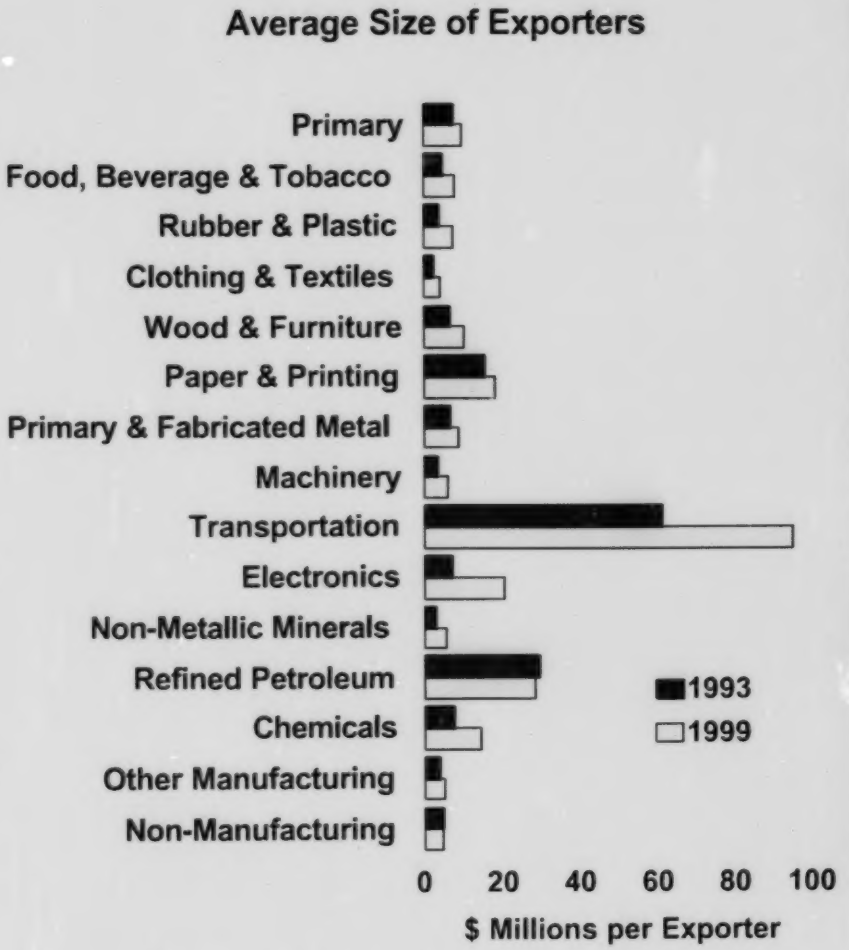
Value of Exports by Size of Exporter, 1999 (Share)



Source: Compilations based on Statistics Canada data

The average size of an exporter is increasing

- In every industry, with the exception of Refined Petroleum, the average exporter size in Canada increased.
  - This reflects the fact that the total number of exporters increased at a significantly slower pace than total Canadian exports.
  - The average value of exports per exporterwas $11.1 million in 1999 compared to $7.6 million in 1993.
- The Transportation industry has by far the largest average exports per exporter, a reflection of the dominance of the big three auto manufacturers.



Source: Compilations based on Statistics Canada data

Section B
Trade in Services

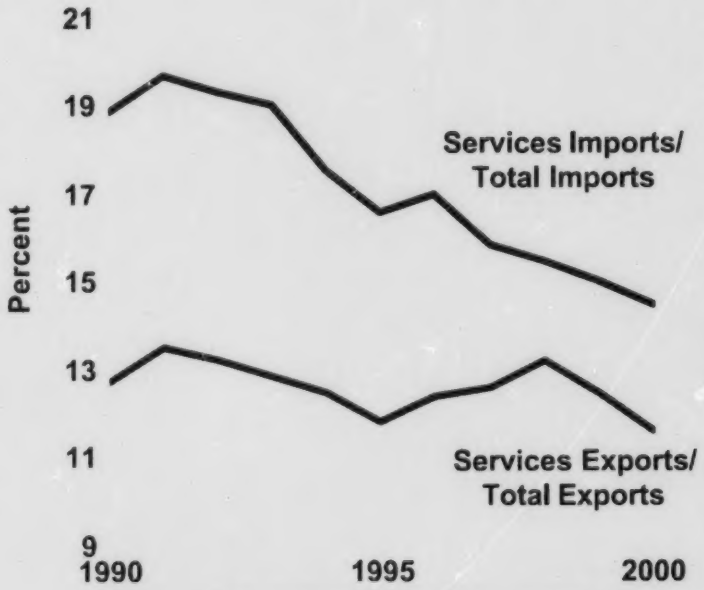
Highlights

- Services trade more than doubled in the 1990's, but, their relative importance in Canada's total trade continued to decline.
- In contrast to this trend, the importance of commercial services rose considerably and Canada managed to increase its share of world trade in commercial services.
- Canada's travel deficit shrunk considerably as the low dollar encouraged American spending in Canada while moderating Canada's travel spending abroad.

In the 1990s, Canada's services trade more than doubled, but its sahre of in total trade declined sharply

- Trade in services more than doubled in the 1990s, from $55 billion in 1990 to $117 billion in 2000. However, as a result of an even faster growth in merchandise trade over the same period, the share of services in total trade declined sharply.
  - Service exports grew 150 percent between 1990 and 2000 but saw its share of total exports fall from 15.8 percent in 1990 to 13.2 percent in 2000.
  - Service imports, on the other hand, grew 90 percent over the 1990s and saw its share of total imports fall from 18.9 percent to 14.5.
- The deficit in services trade fell from a peak of $13.6 billion in 1993 to slightly less than $7 billion in 2000.

Share of Services in Total Trade



Exports & Imports in Services, $ Billion

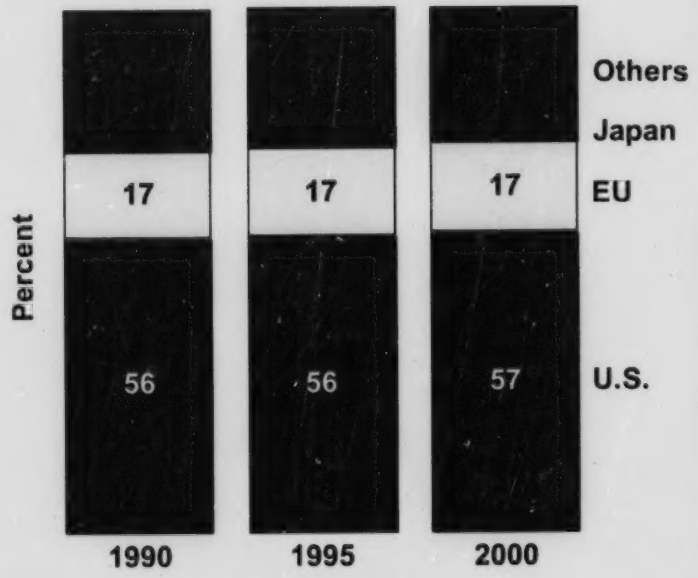
	1990	1995	2000
Exports	22	36	55
Imports	33	49	62

Source: Compilations based on Statistics Canada data

The U.S. continues to be the dominant destination for Canadian service exports...

- As with merchandise trade, the U.S. is the dominant destination for Canada's services exports.
  - The U.S. accounts for 60 percent of Canada's services exports, compared to more than 85 percent for merchandise trade.
  - The U.S.'s share of services trade remained stable at just over 55 percent.
- One-fifth of Canada's services exports are bound for EU and Japan. The rest of services exports go to other countries, mostly in Asia Pacific and Latin America.

Geographical Distribution of Canada's Services Exports



Canada's Total Services Exports $ Billion		
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Source: Compilations based on Statistics Canada data

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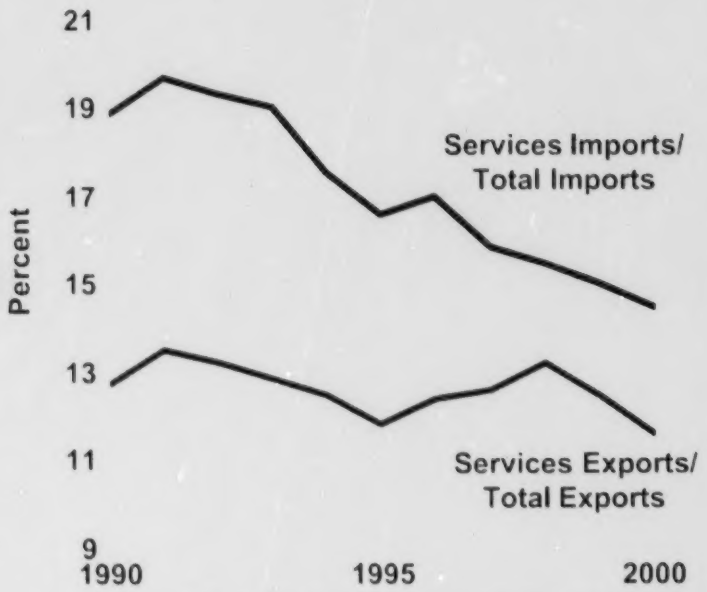

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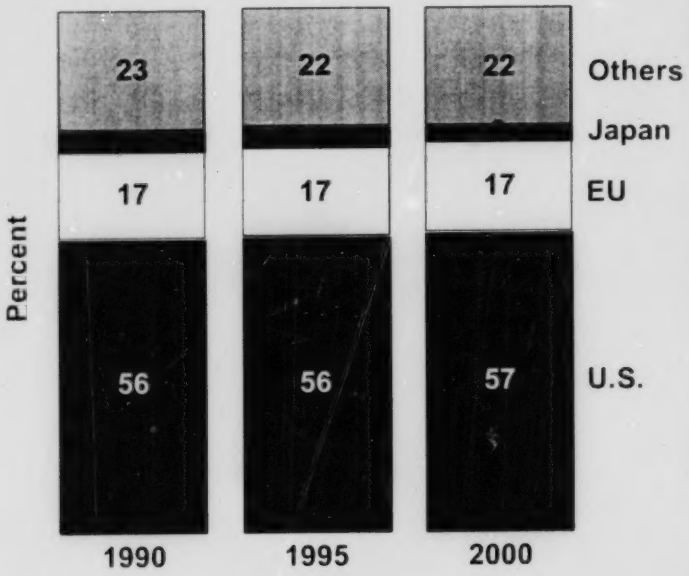


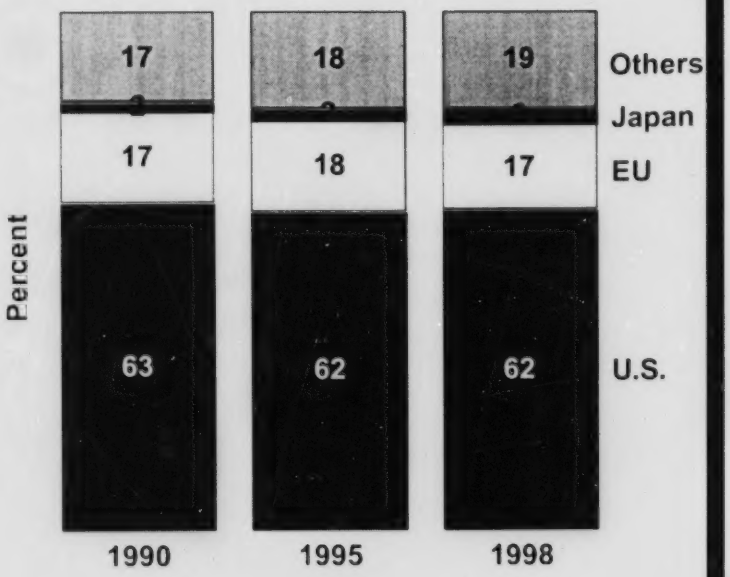
Canada's Total Services Exports $ Billion		
1990	1995	2000
22	36	55

Source: Compilations based on Statistics Canada data

...as well as imports

- There has been little change in the geographic distribution of Canada's service imports over the past decade.
- The U.S. accounts for a somewhat larger share of Canada's service imports than it does of exports at 62 percent.

Geographical Distribution of Canada's Services Imports

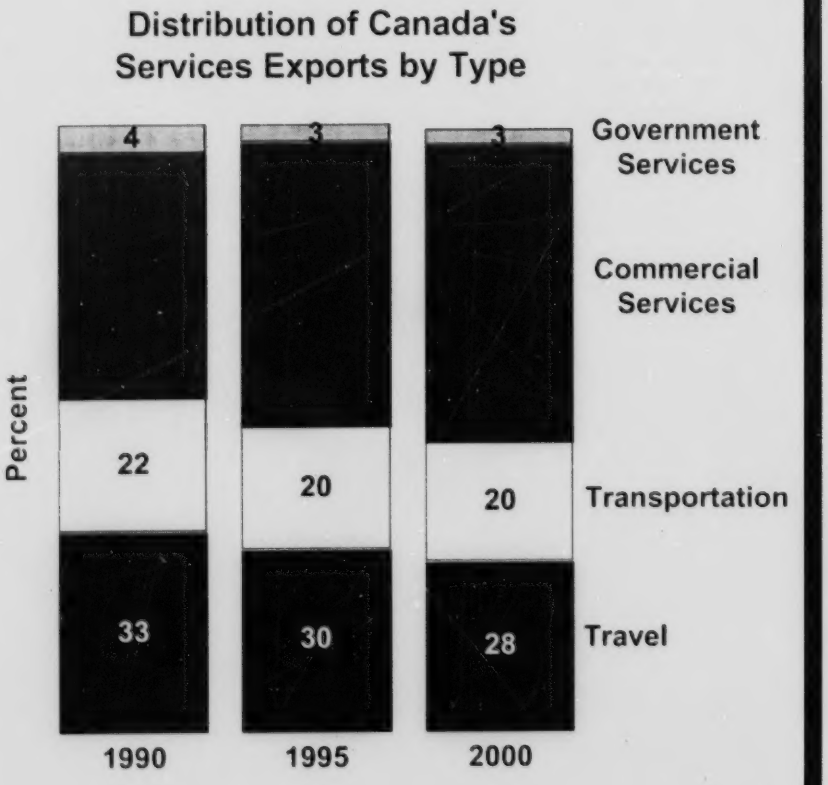


Canada's Total Services Imports $ Billion		
1990	1995	1998
33	46	62

Source: Compilations based on Statistics Canada data

Commercial services are the largest and fastest growing category of service exports...

- In the 1990s, the share of Commercial Services in total service exports increased by 8 percentage points, reaching 49 percent in 2000.
- The importance of all other service categories, especially travel, declined significantly over this period.



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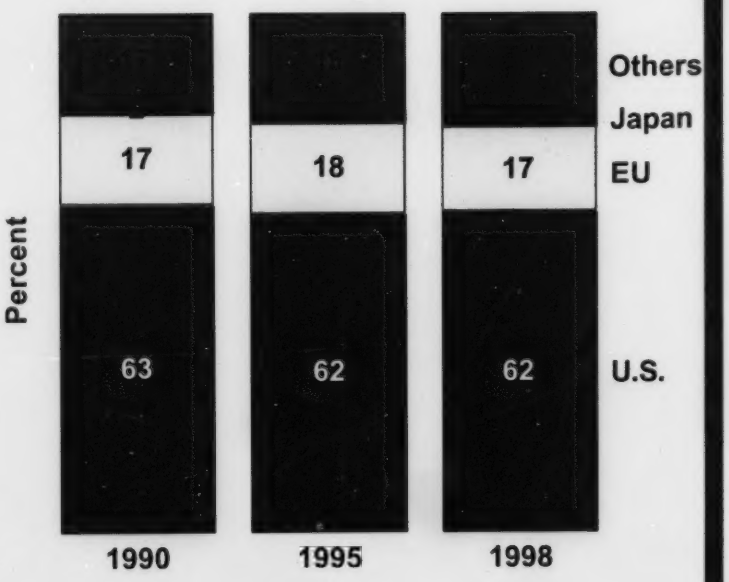

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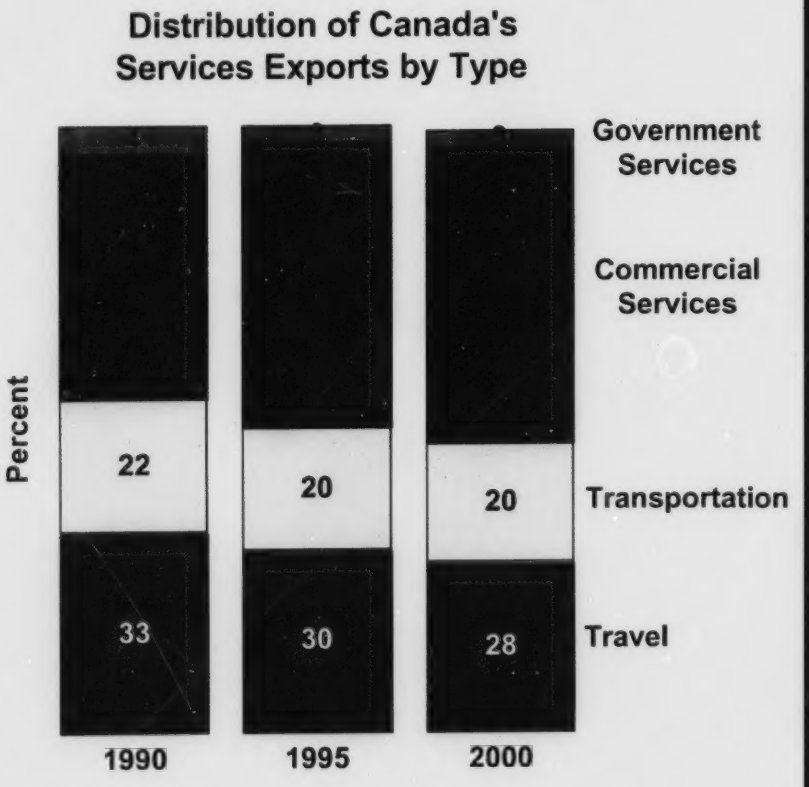

Canada's Total Services Exports $ Billion		
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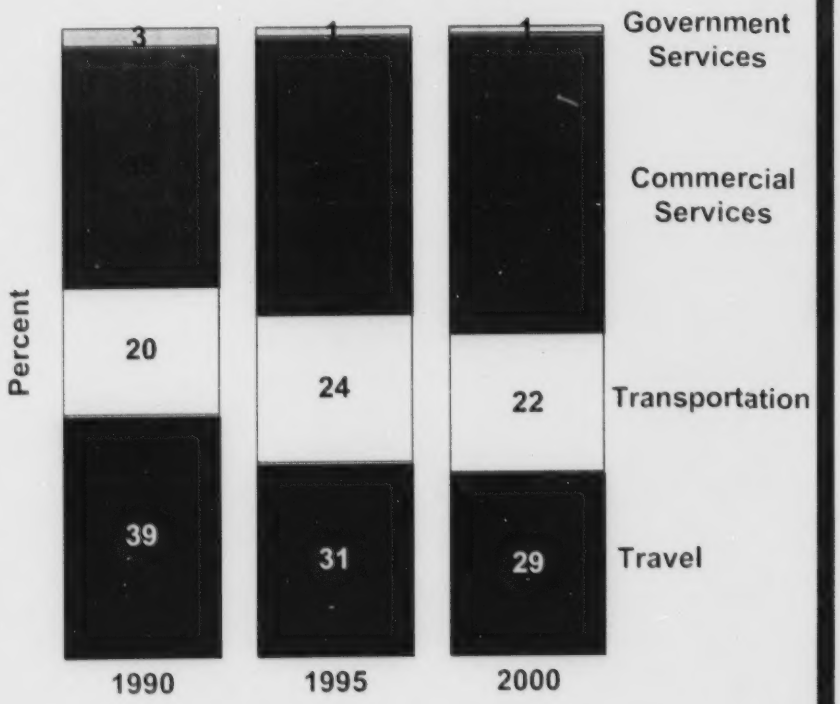
Source: Compilations based on Statistics Canada data

...as well as imports

- The importance of Commercial Services imports also rose in the last decade, from 38 percent in 1990 to 48 percent in 2000.
- The increased share of Commercial Services imports came mostly at the expense of Travel Services.

Distribution of Canada's Services Imports by Type



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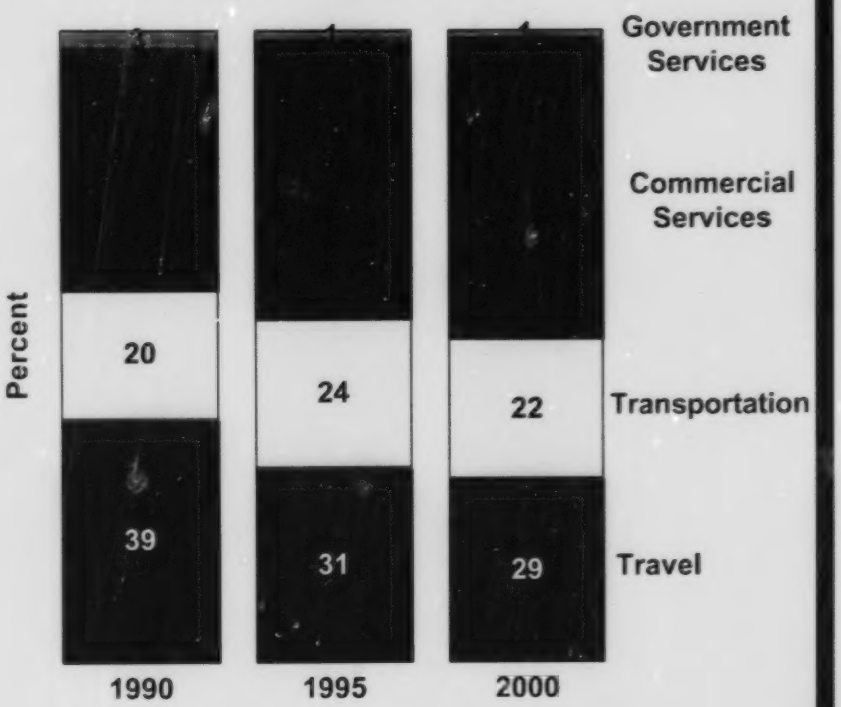
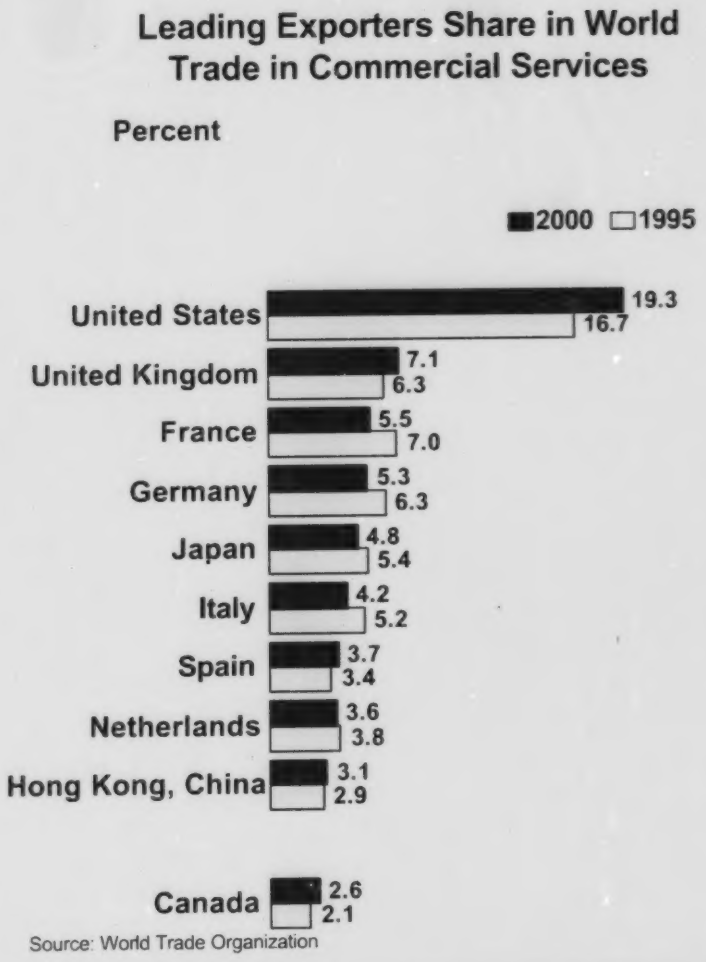


Canada's Total Services Imports $ Billion		
1990	1995	2000
33	46	62

Source: Compilations based on Statistics Canada data

Canada's share of World commercial service exports increased...

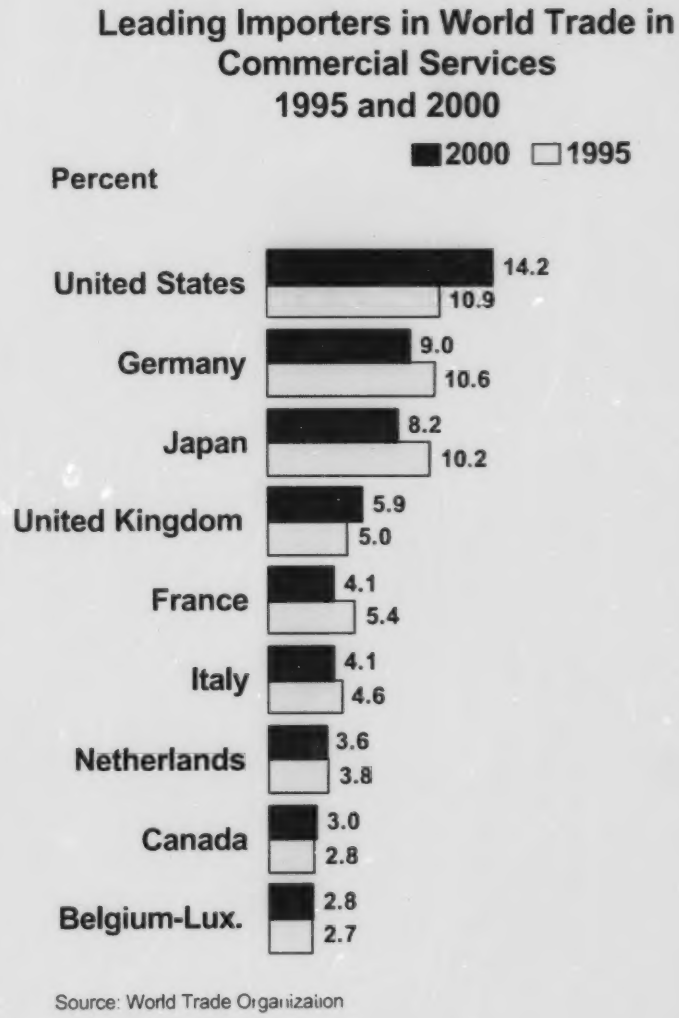
- The U.S. is by far the largest exporter of Commercial Services, and its share is increasing.
- Canada is a relatively small exporter of Commercial Services, ranking 12th in 2000.
  - However, Canada's share of Commercial Service exports increased from 2.1 percent in 1995 to 2.6 percent in 2000.



Source: World Trade Organization

...as did its share of global commercial service imports

- In 2000, Canada ranked the 8th largest importer of Commercial Services in the world - representing 2.8 percent of the world's total Commercial Service imports.
- The growing two-way trade flows in Commercial Services in Canada and other OECD countries once again demonstrates the growing importance of specialization.

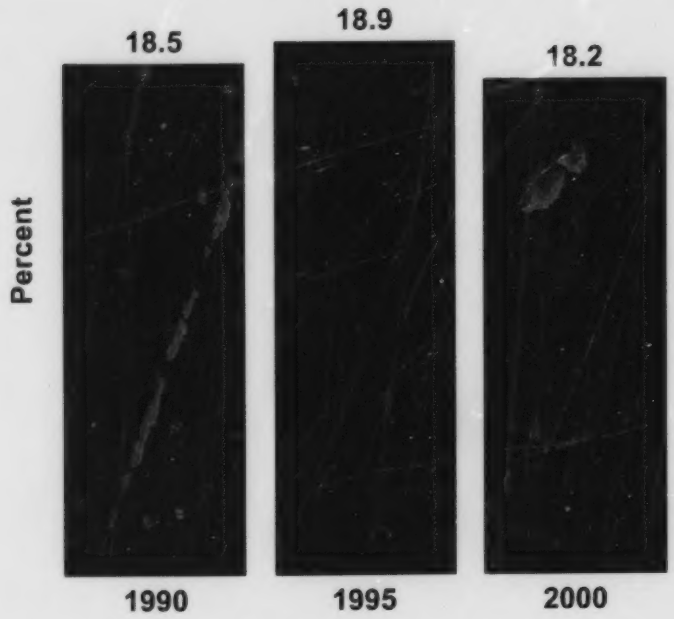


Source: World Trade Organization

Although, commercial services share of total world trade declined in the second half of the 1990's

- The share of commercial services trade in total world trade declined from 18.9 percent in 1995 to 18.2 percent in 2000.
- Commercial services is one of four service categories recognized by Statistics Canada and includes professional services such as financial, insurance and legal services. It represents about half of Canada's total trade in services.

World Services Trade* as a Share of *Total World Trade*

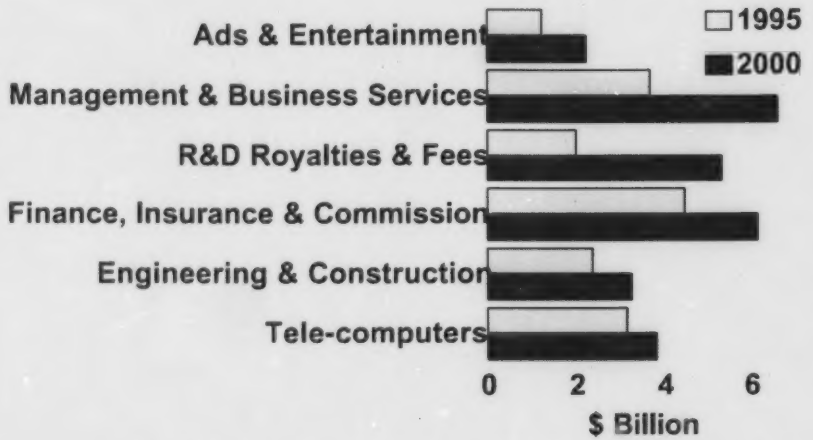


* Commercial services only
Source: Compilations based on data from the WTO.

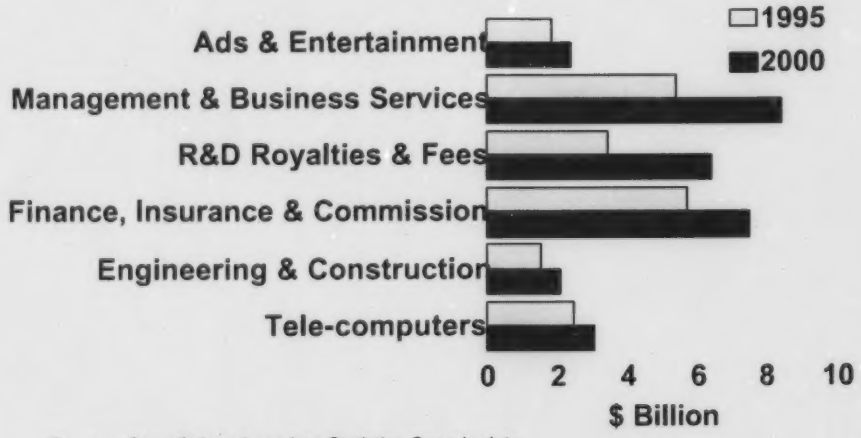
Financial and management and business services dominate Canada's commercial services trade...

- R&D Royalties & Fees is the fastest growing category of Commercial Services receipts and payments.
  - Rapid growth in foreign direct investment flows is likely an important driver of this type of "trade".
- Financial Services and Management and Business Services that account for the largest share of Canada's Commercial Services trade.

Commercial Services Receipts (Exports)



Commercial Services Payments (Imports)

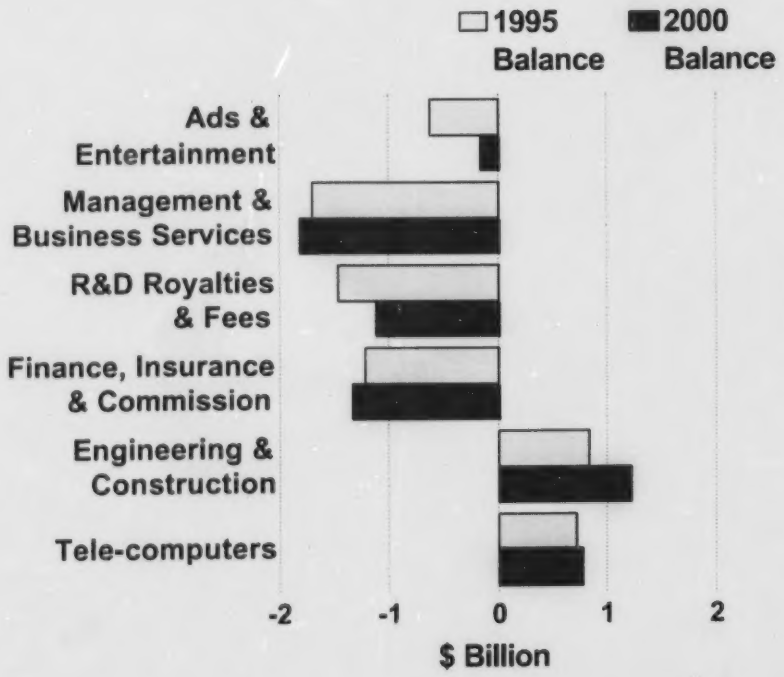


Source: Compilations based on Statistics Canada data

...but we also have deficits in these two industries

- Canada runs a deficit in four of six commercial service industries. We enjoy a surplus in Engineering & Construction and Tele-Computers.
- The structure of balances in Canada's commercial services trade remained relatively stable in the second half of the 1990s.

Commercial Services Trade Balance



Source: Compilations based on Statistics Canada data

Canada's travel deficit narrowed considerably over the 1990s

- Canada's travel deficit declined from a peak of $6.4 billion in 1992 to $2.1 billion in 2000.
- Travel spending by Canadians abroad grew at an average annual rate of 3.5 percent over the 1990s, but was significantly outpaced by the 7.9 percent average annual increase in travel spending by foreigners in Canada.
  - The strong economic growth in the U.S. and the weak dollar likely contributed to increased spending by foreigners. The weak Canadian dollar was mainly responsible for the slower growth in Canadian's travel abroad.

Source: Compilations based on Statistics Canada data

M121

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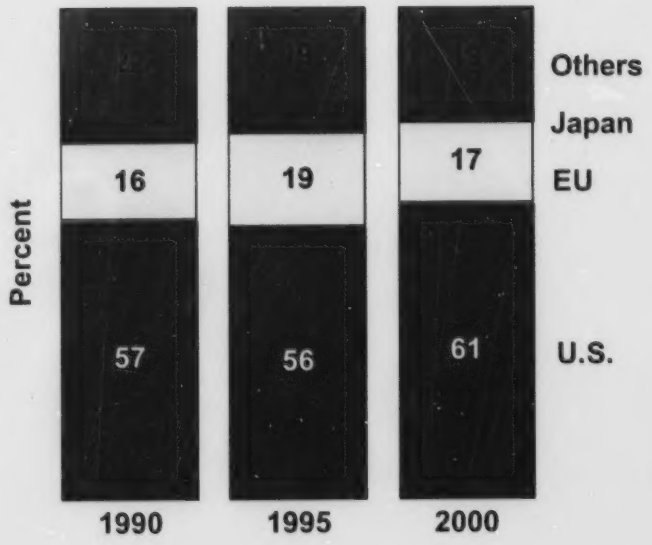
U.S. travel spending in Canada has increased significantly...

- Since 1995 U.S.'s share of travel spending in Canada increased by 5 percentage points, primarily at the expense of the E.U. and Japan. This could reflect stronger economic growth in the U.S., and the depreciation of our currency vis-a-vis the American dollar.

Geographical Distribution of Foreign Spending on Travel in Canada



Canada's Total Travel Receipts $ Billion		
1990	1995	2000
7.4	10.8	15.9

Source: Compilations based on Statistics Canada data

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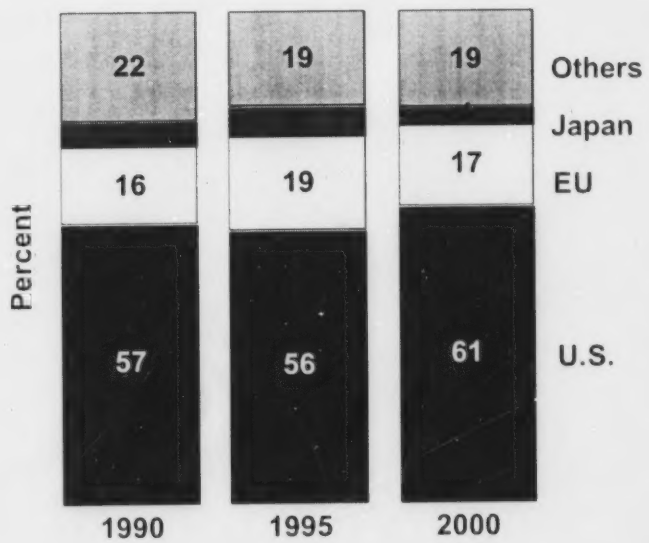


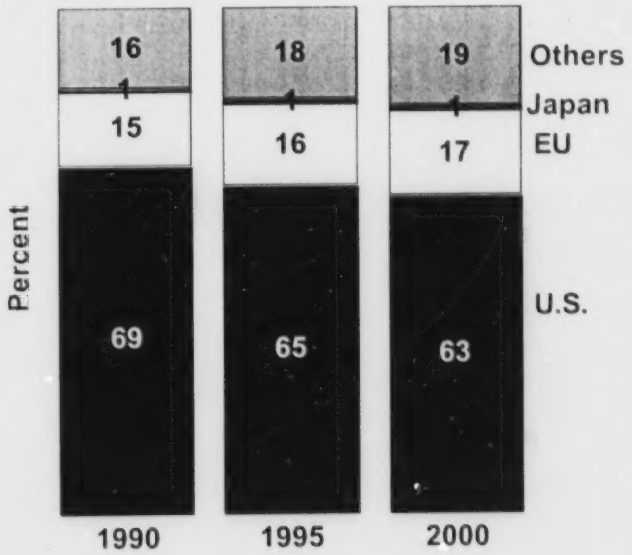
Canada's Total Travel Receipts $ Billion		
1990	1995	2000
7.4	10.8	15.9

Source: Compilations based on Statistics Canada data

...while the U.S. accounted for less Canadian travel dollars

- Although 63 percent of Canadian tourism dollars were spent in the U.S. in 2000, this is down from 69 percent in 1990, likely due to the appreciation of the U.S. dollar over this period.
- On the other hand, the relatively stronger performance of the Canadian dollar vis-a-vis other currencies, such as the Euro, and others seems to have increased travel spending by Canadians to these areas.

Geographical Distribution of Canada's Travel Spending Abroad



Canada's Total Travel Payments $ Billion		
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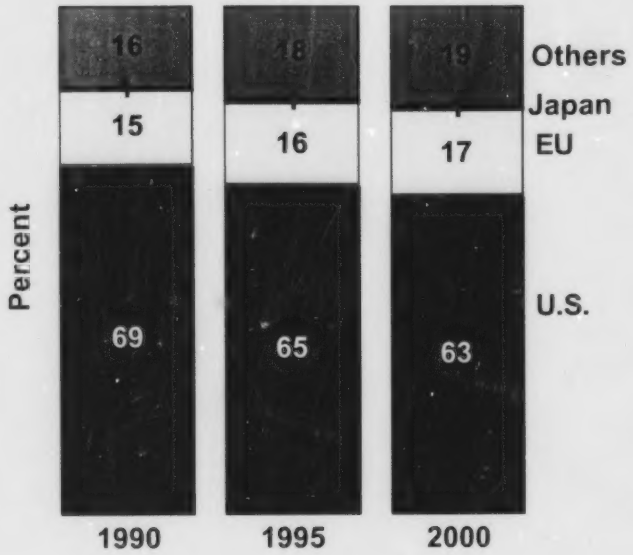


Canada's Total Travel Payments $ Billion		
1990	1995	2000
12.8	14.0	18.0

Source: Compilations based on Statistics Canada data

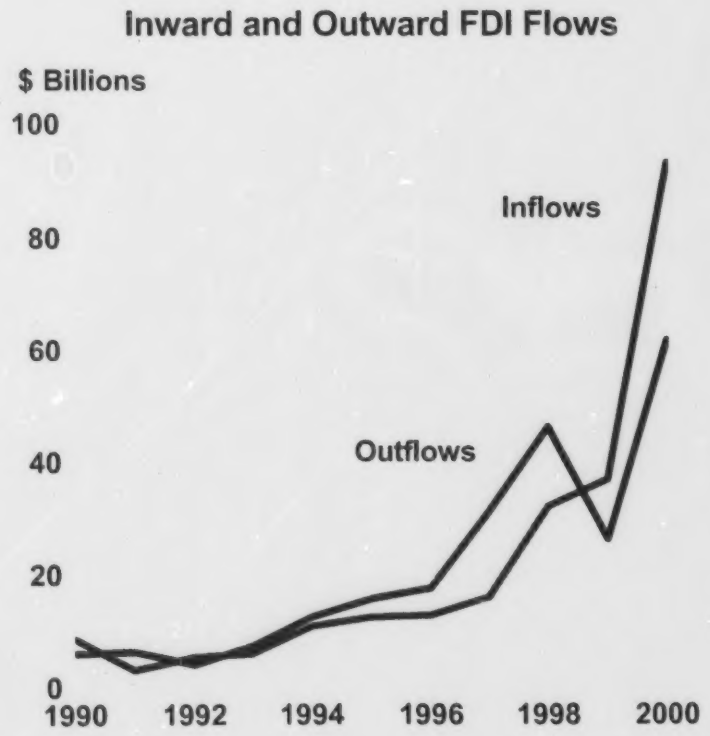
Section C
Foreign Direct Investment

Highlights

- Canada's inward and outward foreign direct investment flows continue to increase at a rapid pace, driven mainly by a boom in mergers and acquisitions (M&A).
- Inward and outward investment are increasingly going towards high-tech industries such as electronics and telecommunications.
- Canada's outward direct investment is increasingly going to non-U.S. destinations.
- Foreign direct investment makes an important contribution to the Canadian economy.
- Canada's share of North American FDI stock continues to fall.
- In terms of both stocks and flows, Canada is receiving a declining share of U.S. investment abroad while the U.S. is gaining a larger share of investment coming into North America.

FDI flows reached record levels in 2000...

- Foreign direct investment (FDI) inflows hit a record high of $93.2 billion in 2000 - a stunning 66 percent increase over 1999 levels.
- FDI outflows also reached an all-time high of $62 billion in 2000, a 135 percent increase over 1999 levels.
  - FDI inflows exceeded outflows in the last two years, a reversal of the trend in the previous six years.
- This dramatic increase in FDI flows over the past few years is a result of increased globalization and cyclical trends in mergers and acquisitions (M&As).

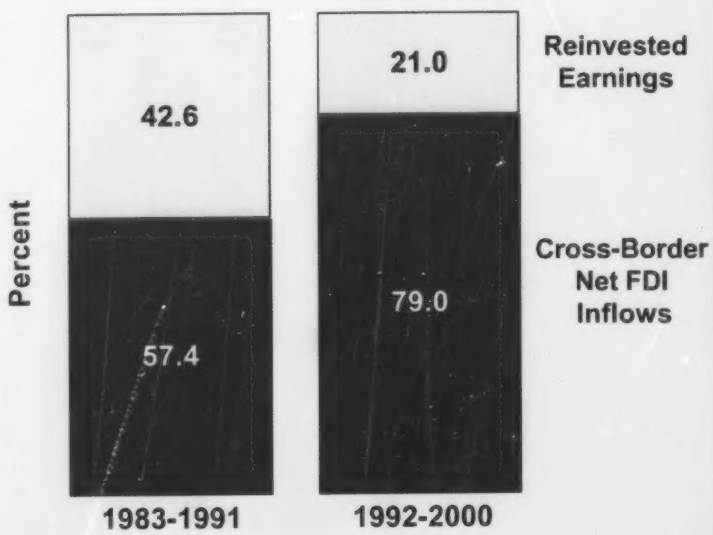


Source: Industry Canada compilations based on Statistics Canada data

...largely in the form of cross-border capital flows...

- Reinvested earnings accounted for only 21 percent of FDI flows since 1992, compared to double that in the 1983-1991 period.
  - New business opportunities in Canada following the FTA could explain much of the increase in externally financed FDI in the 1990s.
  - M&As are rarely financed through reinvested earnings.

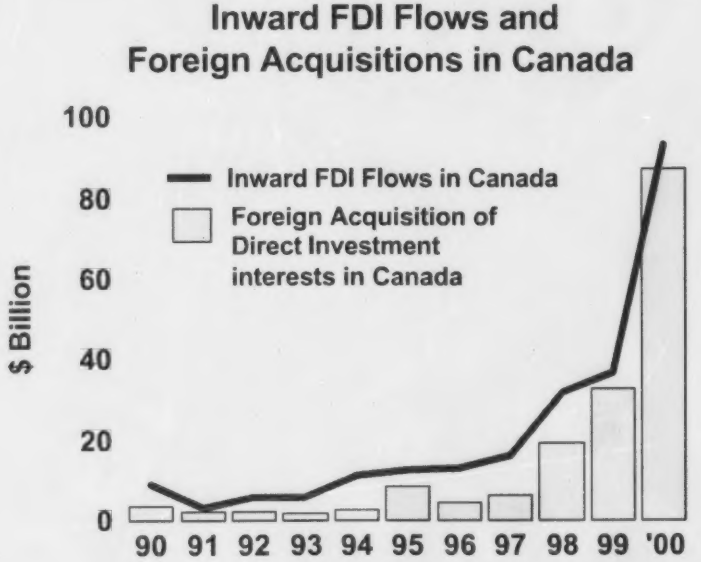
Share of Cross-border FDI Flows and Reinvested Earnings in Total Net FDI Inflows to Canada

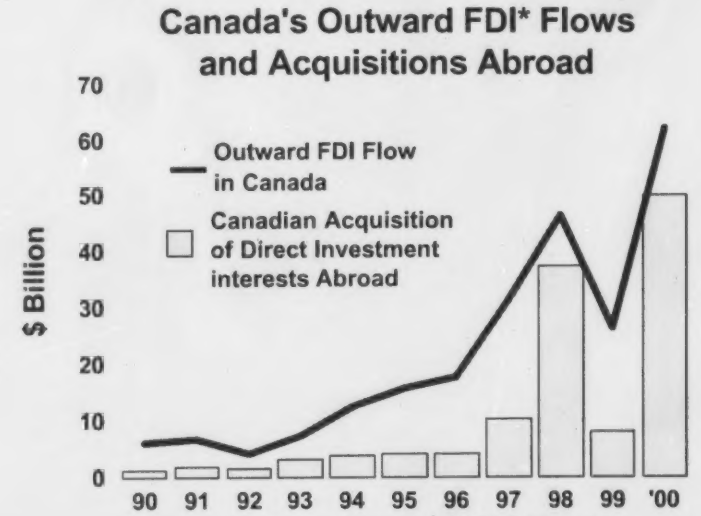


Source: Compilations based on Statistics Canada data

...with a large surge in M&A activity

- A boom in mergers and acquisitions (M&As) was the driving force behind the increase in FDI flows.
  - M&As accounted for 94 percent of FDI inflows and 81 percent of FDI outflows in 2000. This is a significant increase from previous years; M&As, on average, accounted for only 50 percent of FDI inflows and 35 percent of outflows between 1990 and 1999.

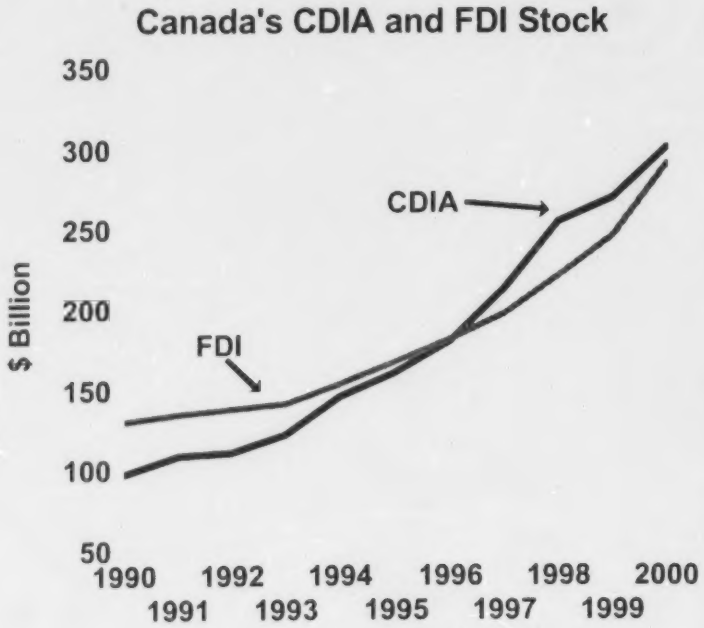




Source: Compilations based on Statistics Canada data

As a result of large increases in flows, foreign direct investment stocks rose significantly

- The boom in FDI flows pushed stocks sharply higher.
  - The stock of FDI in Canada rose 18 percent in 2000 to reach $291 billion, similarly, the stock of Canadian FDI abroad increased 11 percent to reach $301 billion.
  - The gap between the outward and inward stocks reached a peak of $34 billion in 1998, but has since been narrowing and now stands at $10 billion.



Foreign Direct Investment Stock $ Billion			
	1990	1995	2000
CDIA	98	161	301
FDI	130	168	291

Source: Compilations based on Statistics Canada data

As a result of large increases in flows, foreign direct investment stocks rose significantly

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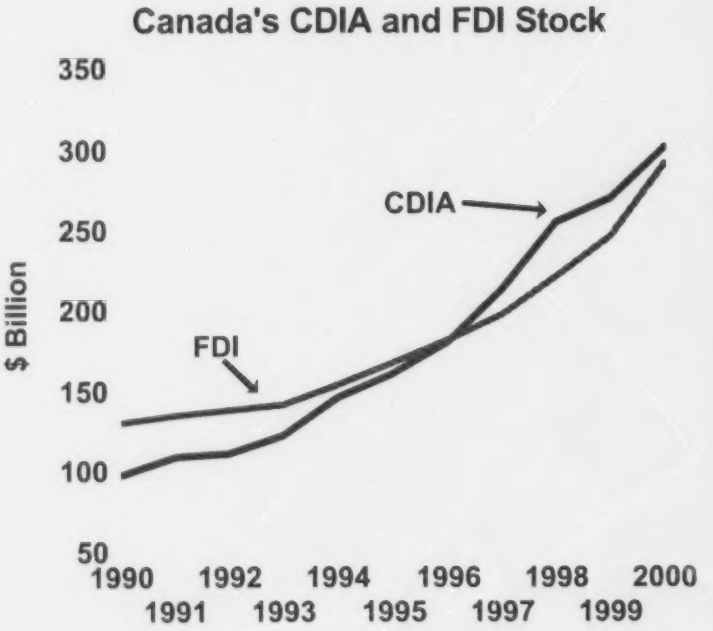

Foreign Direct Investment Stock $ Billion			
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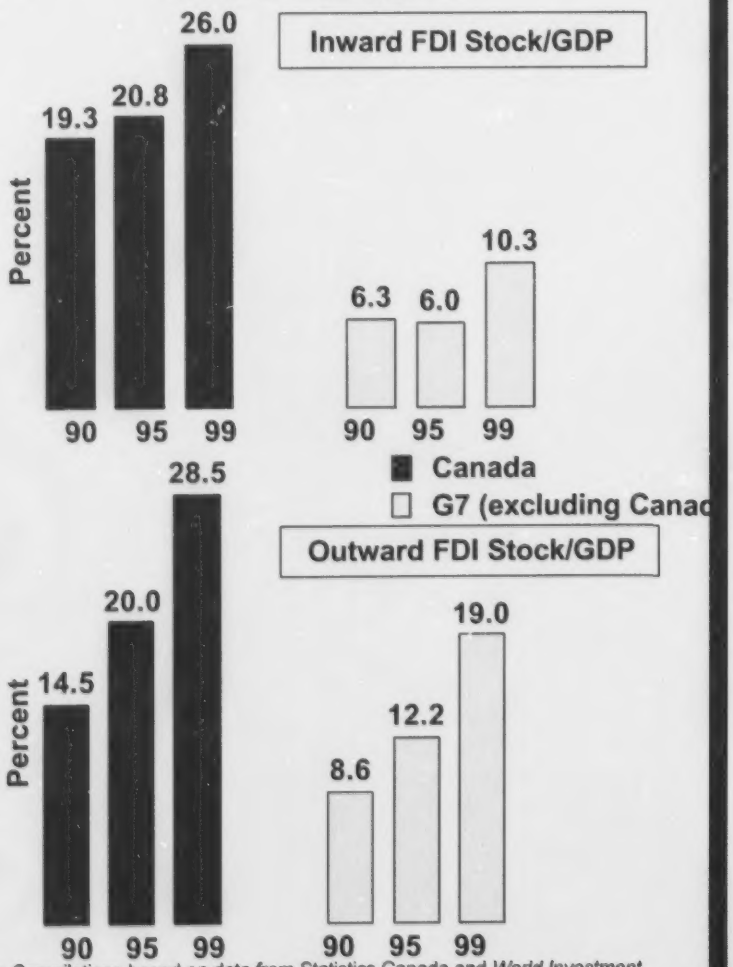
Canada's foreign investment orientation continued to rise faster than other G7 countries

- In 1999, the ratio of total FDI stock (inward plus outward) to GDP in Canada reached over 54 percent, compared to about 34 percent in 1990.
  - The average for other G7 countries is 29 percent in 1999 and 15 percent in 1990.
- The foreign investment orientation gap between Canada and other G7 countries widened significantly in the 1990's.

Share of Inward and Outward FDI Stock /GDP
Canada and the G7

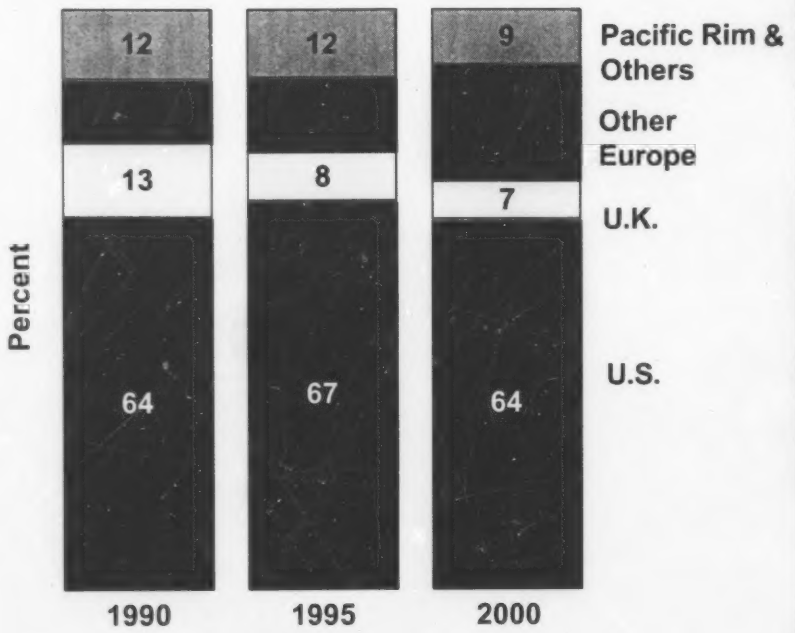


Source: Compilations based on data from Statistics Canada and *World Investment Report*, United Nations

The importance of Europe to Canada's inward FDI increased considerably in 2000...

- Europe's share of FDI stock in Canada increased to 27 percent in 2000, up from 21 percent in 1995.
  - This was, for the most part, driven by a few large acquisitions in Canada.
- The shares of U.S., U.K. and others declined.

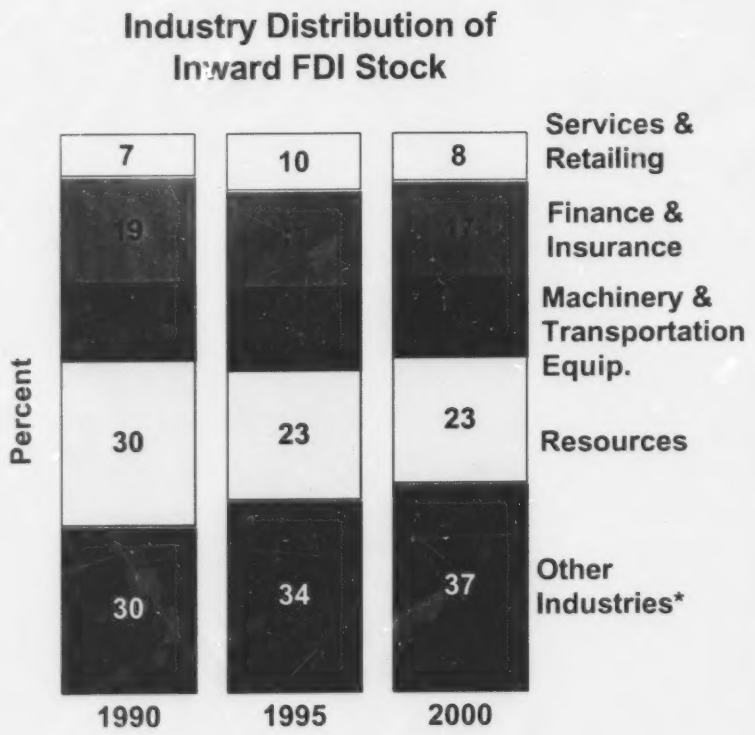
Geographic Distribution of the Inward FDI Stock in Canada



Source: Compilations based on Statistics Canada data

...and is increasingly concentrated in non-traditional industries

- The share of inward FDI in "Other Industries", which includes many "new economy" industries such as electronics, communications and chemicals, has increased steadily over the 1990s.
  - This has largely occurred at the expense of the Resource industry in the first half of the 1990s and of Services & Retailing in the second half.



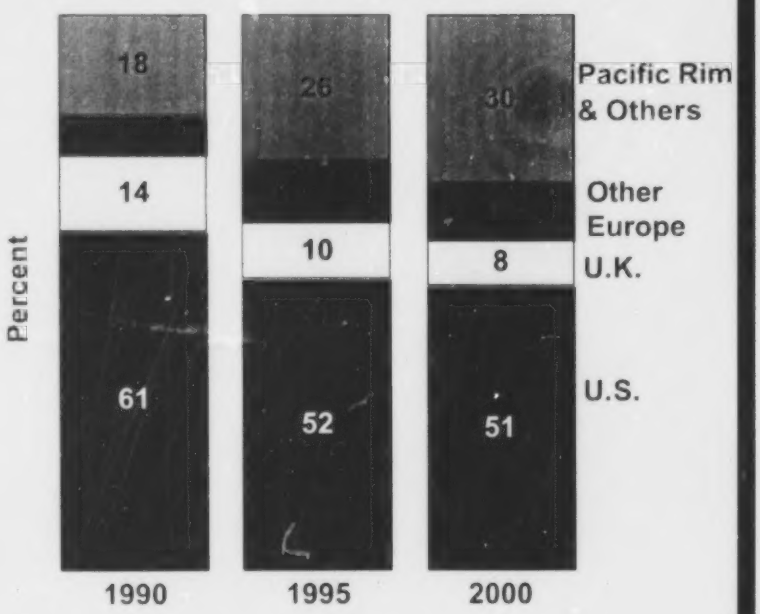
* Includes Food, beverages and tobacco, Chemicals, chemical products and textiles, Electrical and electronic products, Construction and related activities, and Communications

Source: Compilations based on Statistics Canada data

Canada's outward FDI stock continued to diversify geographically...

- The U.S. is still the dominant destination for Canadian investment abroad, but its importance has dwindled steadily in the last decade — the U.S. accounts for just over half of Canadian FDI abroad.
- Europe's share of Canada's outward investment is about one-fifth, and has not changed significantly in the 1990s.
  - The U.K. however, which alone accounted for about 14 percent of CDIA in 1990 now accounts for only 8 percent.
- The share of Pacific Rim and Other countries in Canada's FDI abroad has increased from 18 percent in 1990 to 30 percent in 2000.
  - Most of the investment went to three small Caribbean countries; Bermuda, Barbados and Bahamas.

Geographic Distribution of Canada's Outward FDI Stock*



CDIA Stock $ Billion		
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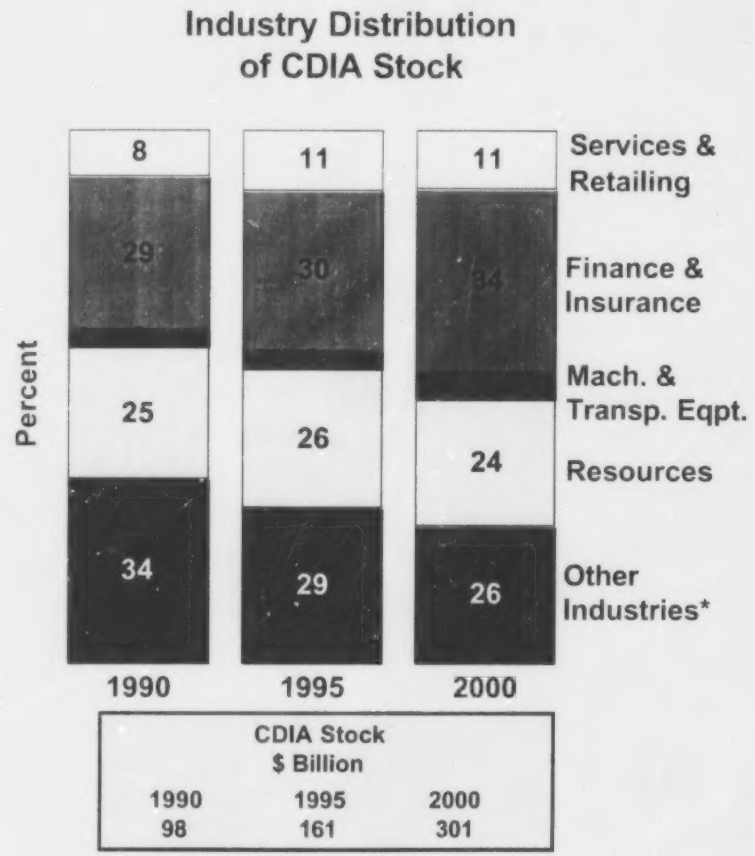
...and located increasingly in finance and insurance

- Between 1990 and 2000, the share of Finance & Insurance in total Canadian FDI abroad increased from 29 percent to 34 percent.
- The share of Services & Retailing also increased somewhat in the first half of the 1990s, but has since remained stable.
- Unlike for inward FDI, the share of "Other Industries" has fallen off considerably, losing 8 percentage points since 1990s.



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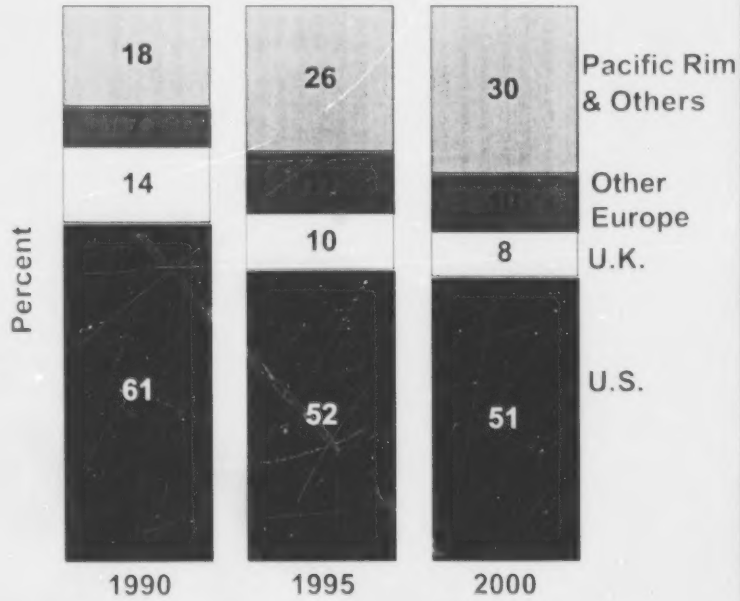

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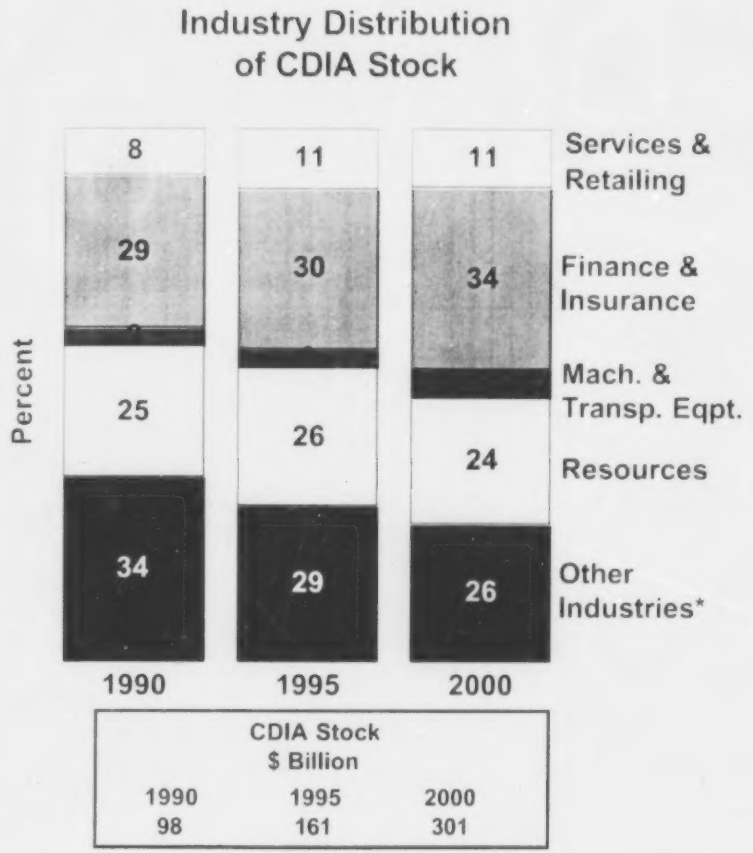
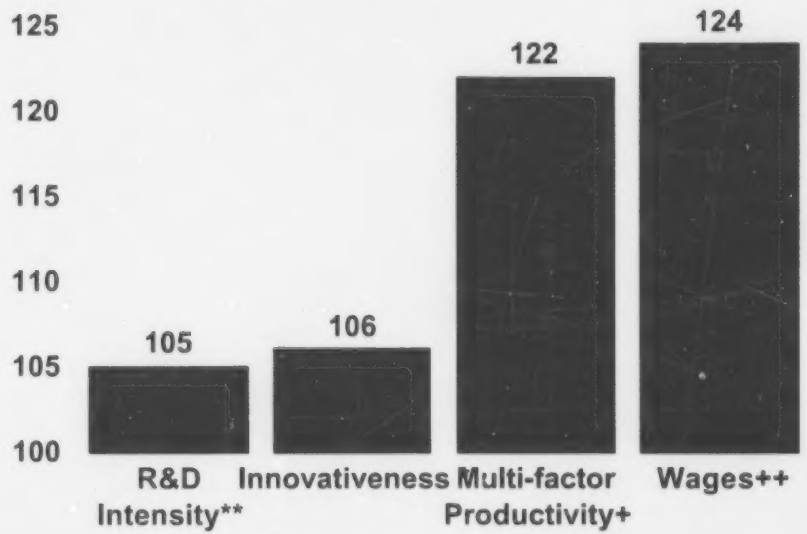


* Includes Food, Beverages and Tobacco; Chemicals, Chemical Products and Textiles; Electrical and Electronic Products; Construction and related activities; and Communications.
Source: Compilations based on Statistics Canada data

Foreign investment provides many economic benefits to the Canadian economy

- FDI brings with it - technology, managerial know-how and business practices from the parent.
- Foreign firms tend to be more innovative, more productive and pay higher wages.

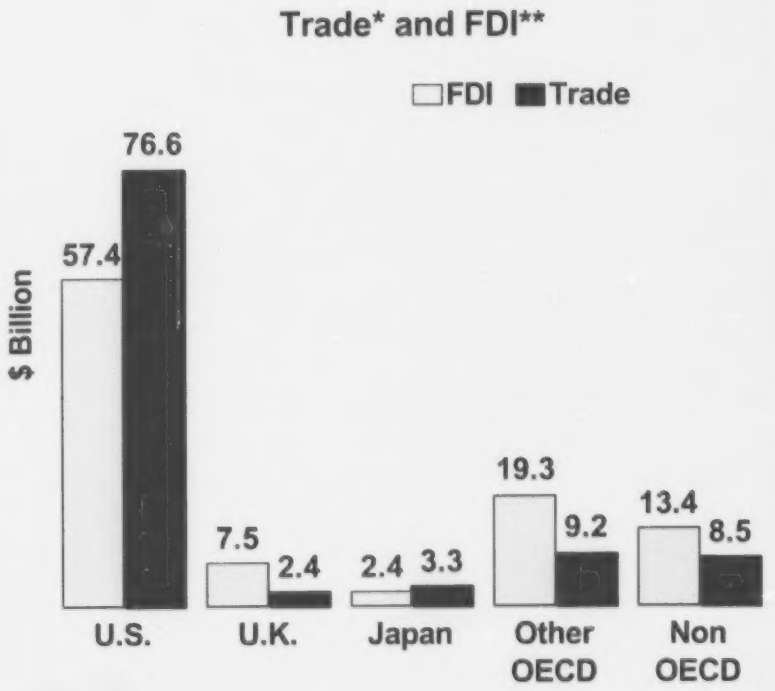
Foreign Affiliate Performance Relative to Domestic Domestic = 100



*1999
** 1995
+1993-1995
++1997 relative to national average.
Source: From various sources

Furthermore, FDI and trade complement each other

- There is a strong link between trade and foreign direct investment.
- For Canada, FDI stock tends to be distributed somewhat more evenly geographically than trade, suggesting that FDI may not be as dependent on distance as trade.

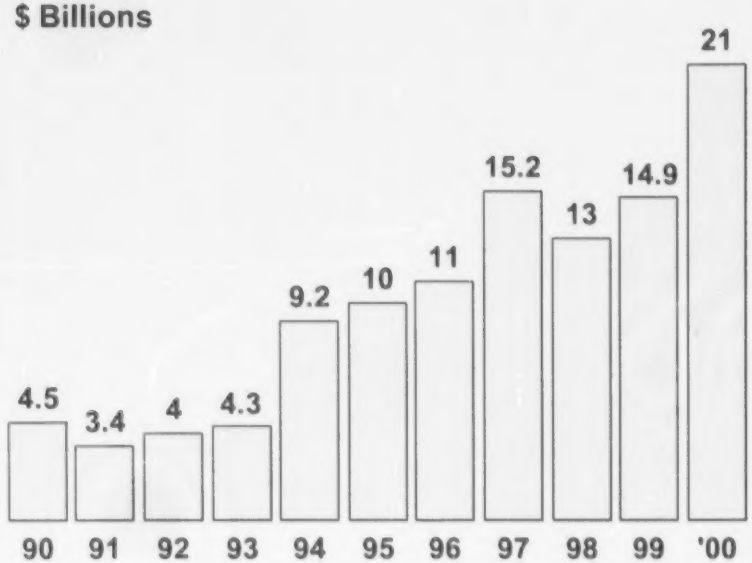


* Exports plus imports
** Inward stock plus outward stock
Source: Industry Canada compilations based on Statistics Canada data.

Investment abroad generates income for Canadians

- Investing abroad generates income for Canadians and contributes prominantly to our current account balance.
- Canadian investments abroad generated $21 billion in income for Canadians in 2000, more than four times the 1990 level.
- Like foreign firms in Canada, Canadian firms that invest abroad also tend to be more productive than their domestically-oriented counterparts.

Income from Canada's Outward FDI*

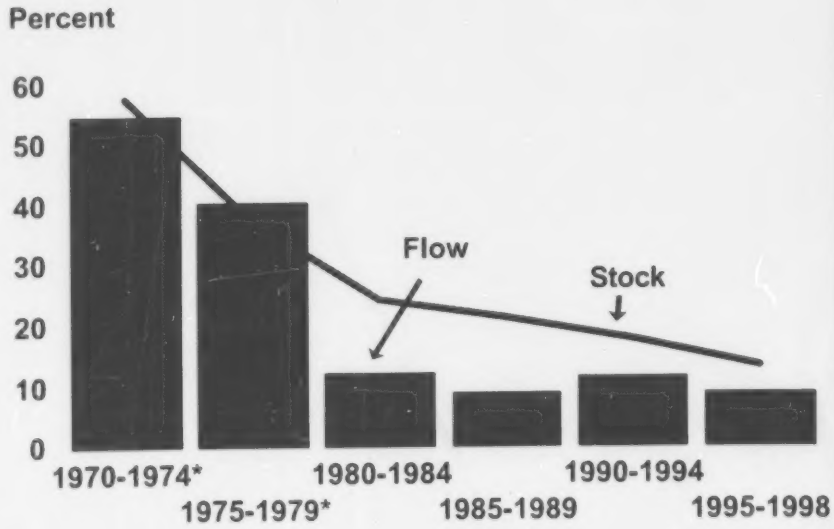


* Annual income from interest, dividends and reinvested earnings on Canadian direct investment abroad.
Source: Compilations based on Statistics Canada data.

Canada's share of North American inward FDI stock has declined steadily over the past three decades...

- Canada's share of North American FDI inflows declined dramatically in the late 1970's and early 1980's and has remained low ever since.
- These trends in inflows contributed to the declining share of North American inward FDI stock.
  - In 1974, Canada had 57 percent of North America's inward FDI stock, far exceeding our share of North American GDP.
  - By 1998, our share had fallen off to 13 percent, still well above our share of GDP.
- As long as Canada's share of North American FDI inflows remains below our share of North American FDI stock, Canada's share will continue to fall.

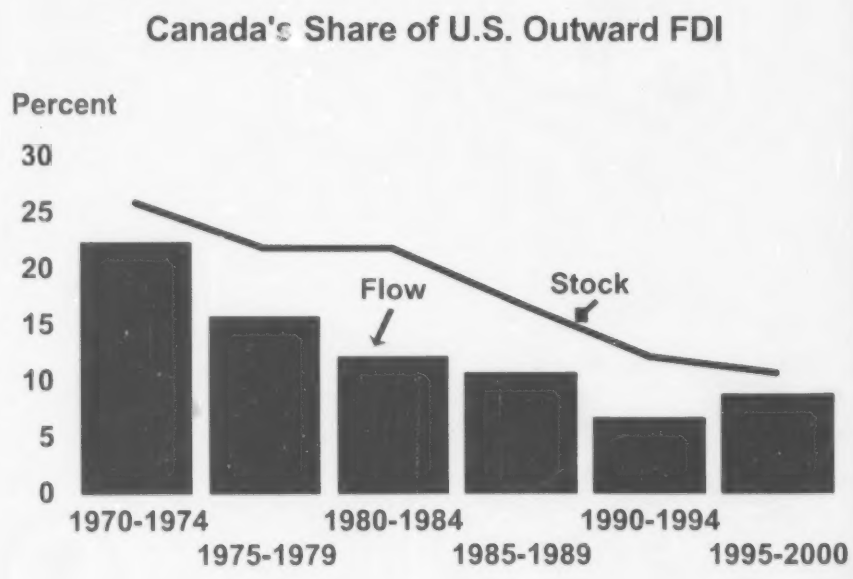
Canada's Share of North American FDI



*Mexico not included in stocks.
Note: Stocks are for end period, flows are average of period.
Source: Industry Canada compilations based on data from the U.N. World Development database and the U.N. World Investment Report 2000.

...partially a result of reduced flows from the U.S...

- Our share of U.S. outward FDI, both stock and flows have been declining steadily for nearly three decades
  - It is only recently that our share of flows have rebounded somewhat.
- The U.S. is our most important source of foreign direct investment, accounting for nearly two-thirds of our inward FDI stock.

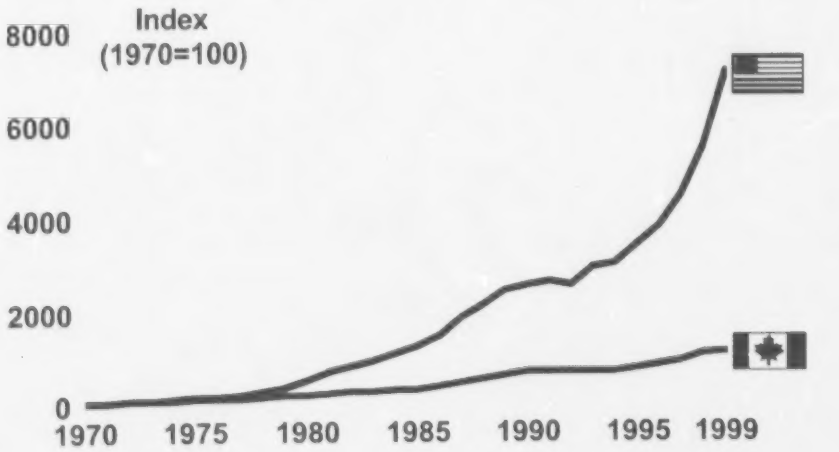


Note: Stocks are for end period, flows are average of period.
Source: Industry Canada compilations based on data from the U.S. BEA

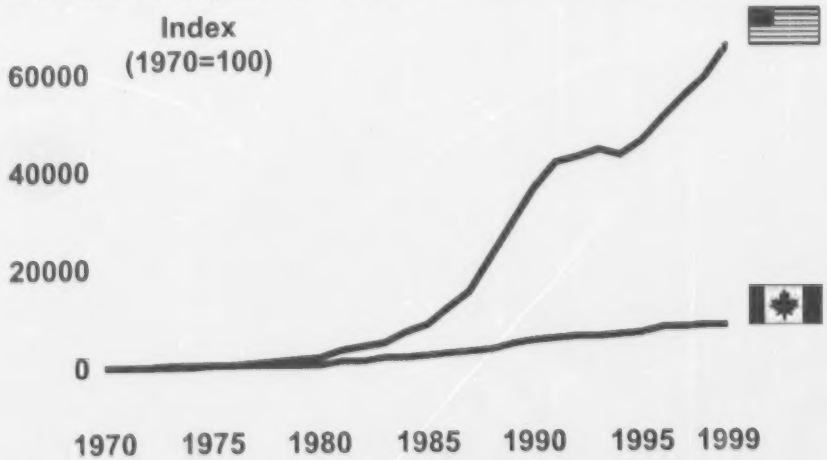
...and also because the U.S. is getting more from outside of North America

- Prior to 1975, the U.S. had a disproportionately small share of North American FDI relative to tits share of North American GDP.
- Since the late 1970's, more and more of the North American inbound FDI headed to the U.S.

Growth of European Investment in North America



Growth of Japanese Investment in North America



Note: Investment Stock
Source: Industry Canada compilations based on data from the U.S. BEA and Statistics Canada.

Part II
Canada's Trade and Investment Relations with Europe

Part 2
Canada's Trade and Investment Relations with Europe

Highlights

- Canada's export growth to Europe has lagged growth to other destinations, most notably the United States. Europe has become less important as a destination for Canadian exports.
- The importance of Europe as a source for imports has also declined somewhat over the 1990s, but not nearly to the same extend as exports, resulting a large and growing merchandise trade deficit.
- The four large countries of Western Europe account for the majority of Canada's trade with Europe, although some of the smaller countries are seeing a faster rate of growth.
- Canada's export to Europe are slowly shifting towards more non-resource based industries. Imports are already dominated by high-tech industries.
- The importance of the E.U. in Canada inward FDI had been falling steadily throughout the 1990s but rebounded in 2000 as a result of some mega-mergers.

Europe is a large and diverse market

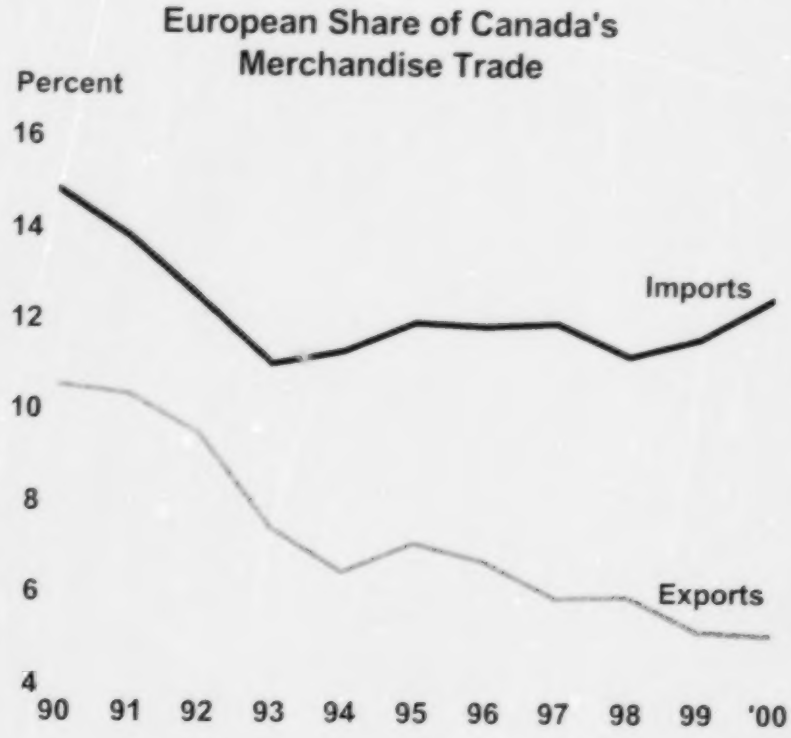
- The advanced countries of Western Europe (members of either the E.U. or EFTA) and the developing countries of Eastern Europe, many of which covet membership in the E.U., are very diverse in terms of population size, economic development, culture, language and social progress
  - Even within the E.U. there are vast differences between countries, in terms of living standards, population size and economic growth.
- In 1998, E.U.'s GDP stood over U.S.$8 trillion, the second largest market in the World, after North America.

Canada's trade with Europe nearly doubled...

- Canada's trade with Europe has nearly doubled to a record $66 billion in 2000 since 1990 .
  - This has been largely due to the strong growth in imports from Europe which increased at an average annual rate of 8.7 percent since 1990.
  - On the other hand, exports to Europe have been growing at a much slower pace of only 3.8 percent.
  - Relatively strong economic growth in Canada and a stronger Canadian dollar relative to the European countries were mainly responsible for a healthy growth in imports.
- Canada's merchandise trade deficit with Europe has increased dramatically and now stands at more than $23 billion.
  - Canada's imports from Europe are now more than double the value of our exports to Europe.

...but, has fallen considerably as a share of Canada's total trade

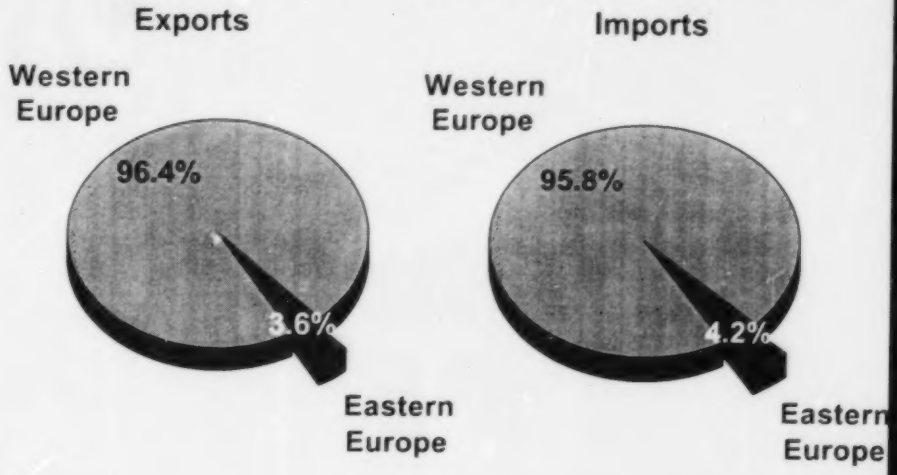
- Only slightly more than 5 percent of Canada's exports go to Europe - less than half the share in 1990.
- Since 1993, the European share of Canadian imports has remained around 12 percent after declining significantly in the early 1990s.



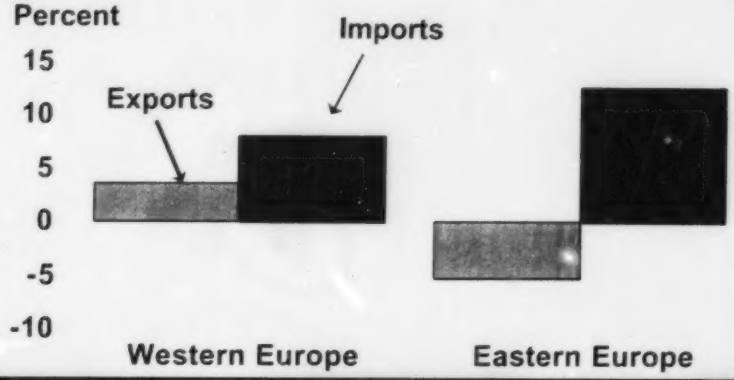
Nearly all of Canada's European trade is with Western Europe

- Almost all of Canada's European trade is with Western Europe; 96.4 percent for exports and 95.8 percent for imports in 2000.
- Canada's exports to Eastern Europe declined over the 1990's, the decline occurred in 1992 and 1993 as the U.S.S.R. desintegrated and the former communist countries struggled.
  - But, imports from Eastern Europe increased at a more rapid pace than from Western Europe, rising at an average annual rate of 12.7 percent.

Distribution of European Trade with Canada, 2000



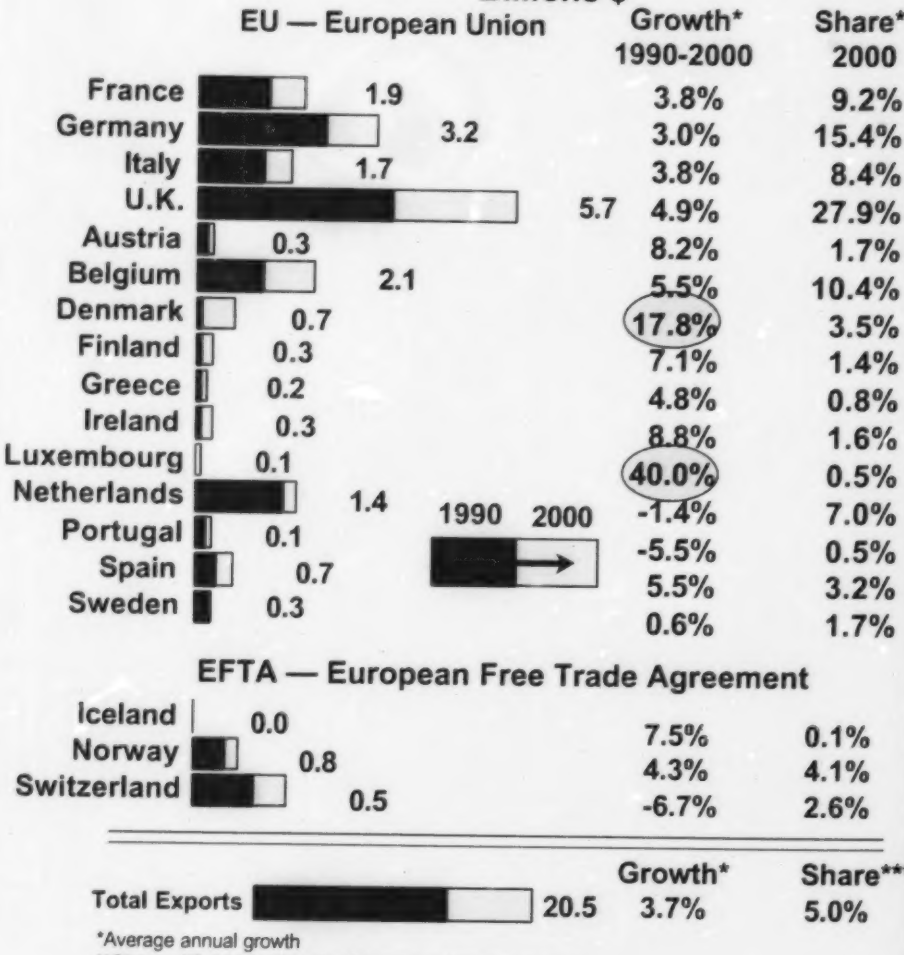
Growth of European Trade with Canada, 1990-2000



European G-7 members account for over 60 percent of our exports to Western Europe...

- The U.K. alone, accounts for more than one-quarter of Canadian exports to Western Europe, with the other three European G-7 countries accounting for another third.
  - Canadian exports to Belgium and the Netherlands are likely somewhat overstated as these are port countries and not the final destination for the goods.
- Only Luxembourg and Denmark posted double-digit growth and, for Luxembourg, from a very small base.

Merchandise Exports to Western Europe
Billions $

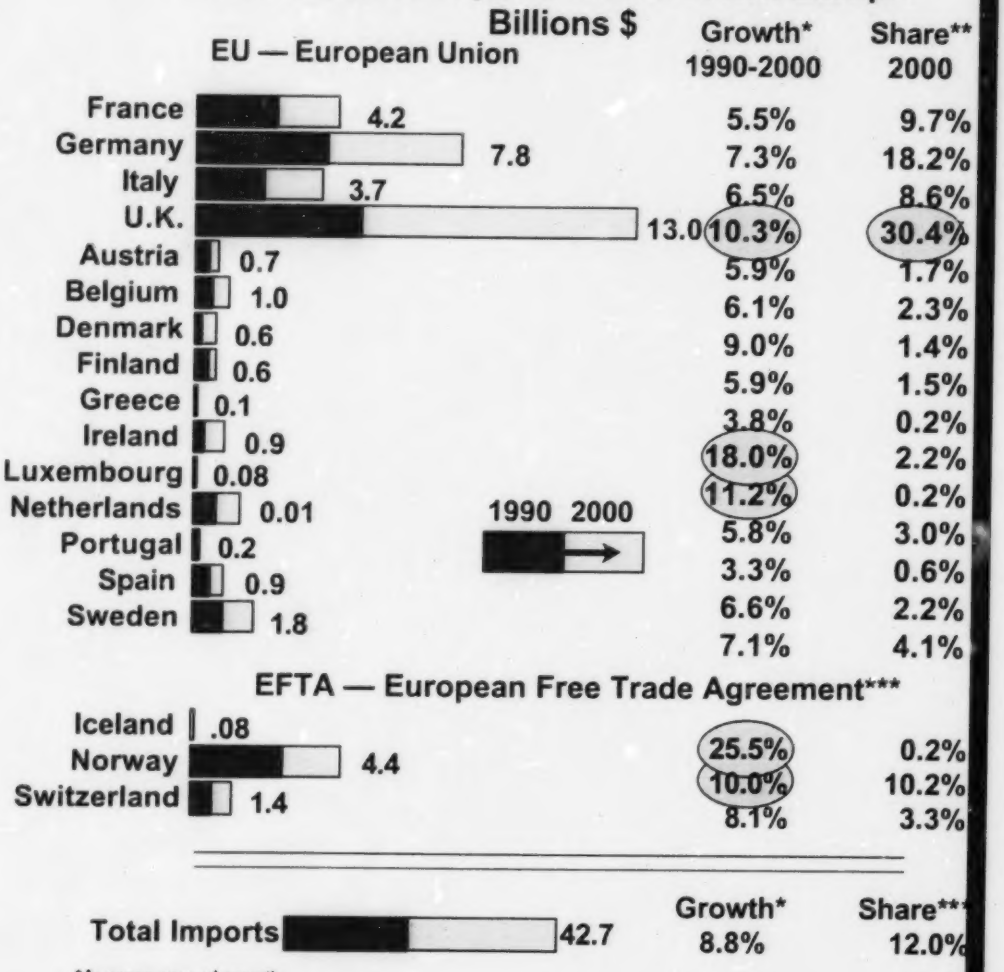


*Average annual growth
**Share of Total Merchandise Exports to Western Europe
***Share of total Canadian exports
Source: Industry Canada compilations based on Statistics Canada data

...and more than two-thirds of our European imports

- Over 30 percent of Canada's imports from Western Europe come from the U.K., and Germany accounts for another 18 percent.
- U.K., Luxembourg, Netherlands, Iceland and Norway registered doubled digit growth in their exports to Canada.

Merchandise Imports from Western Europe



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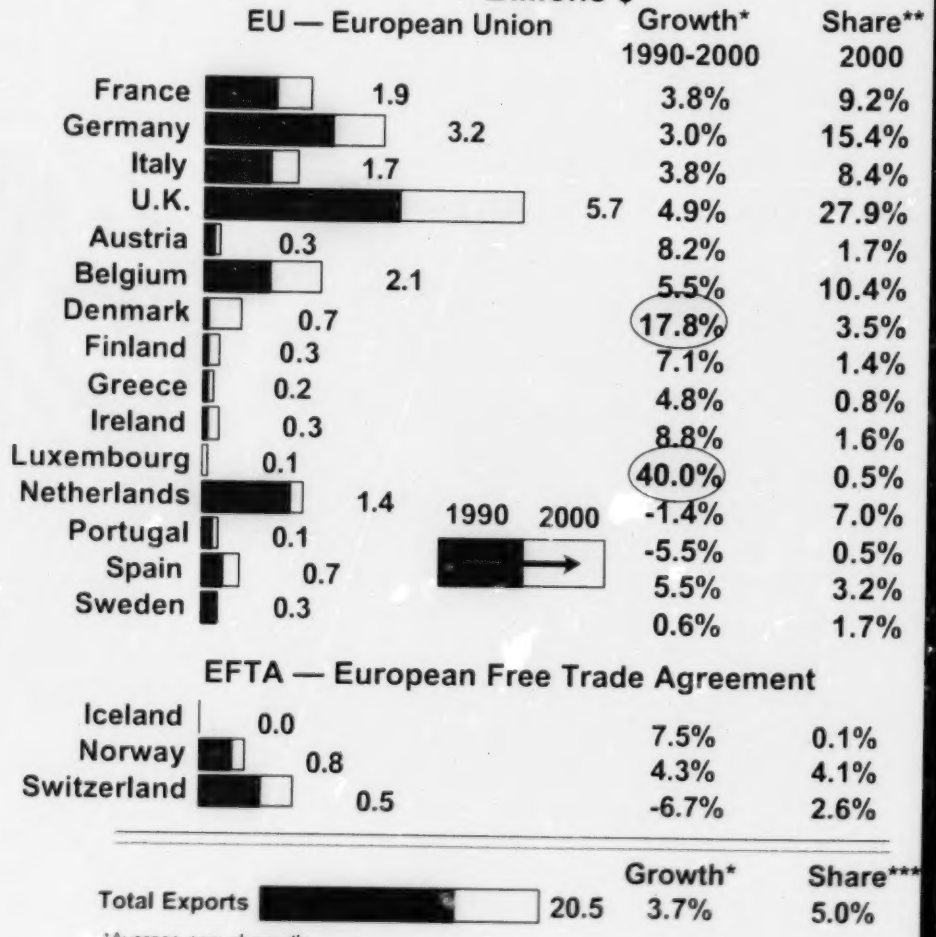

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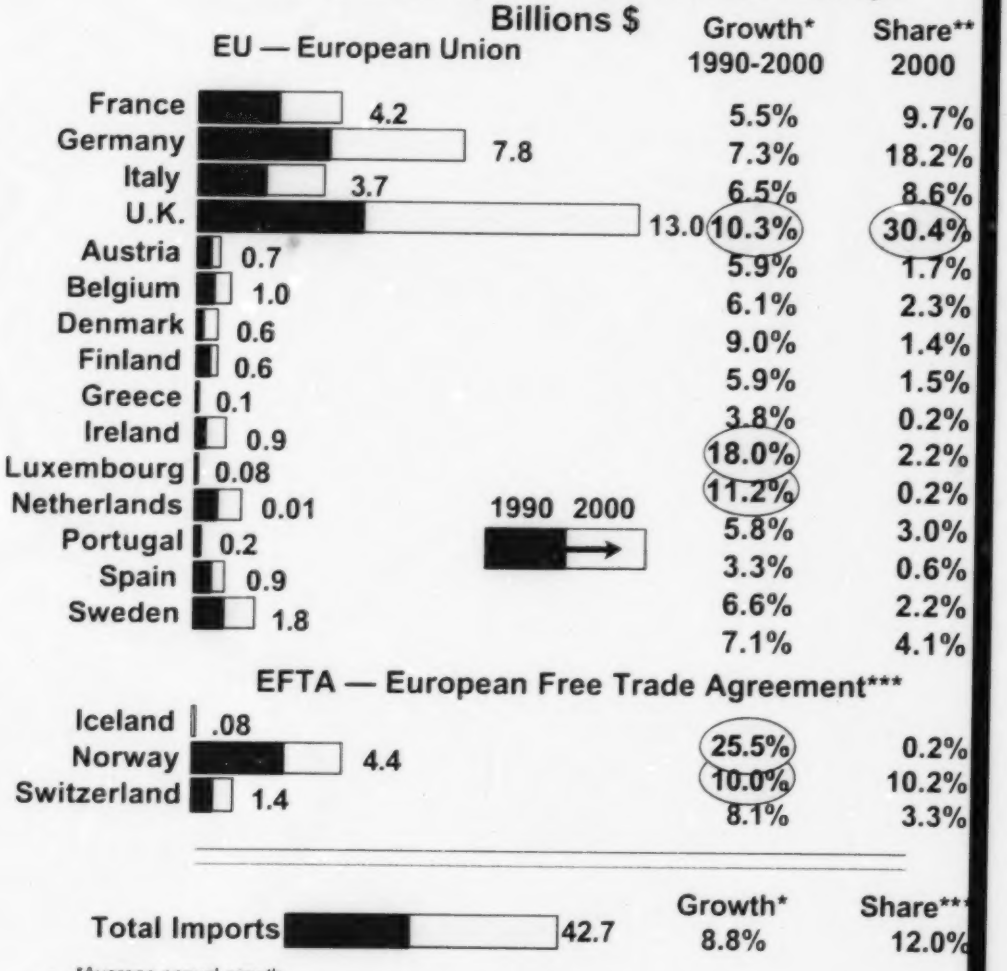

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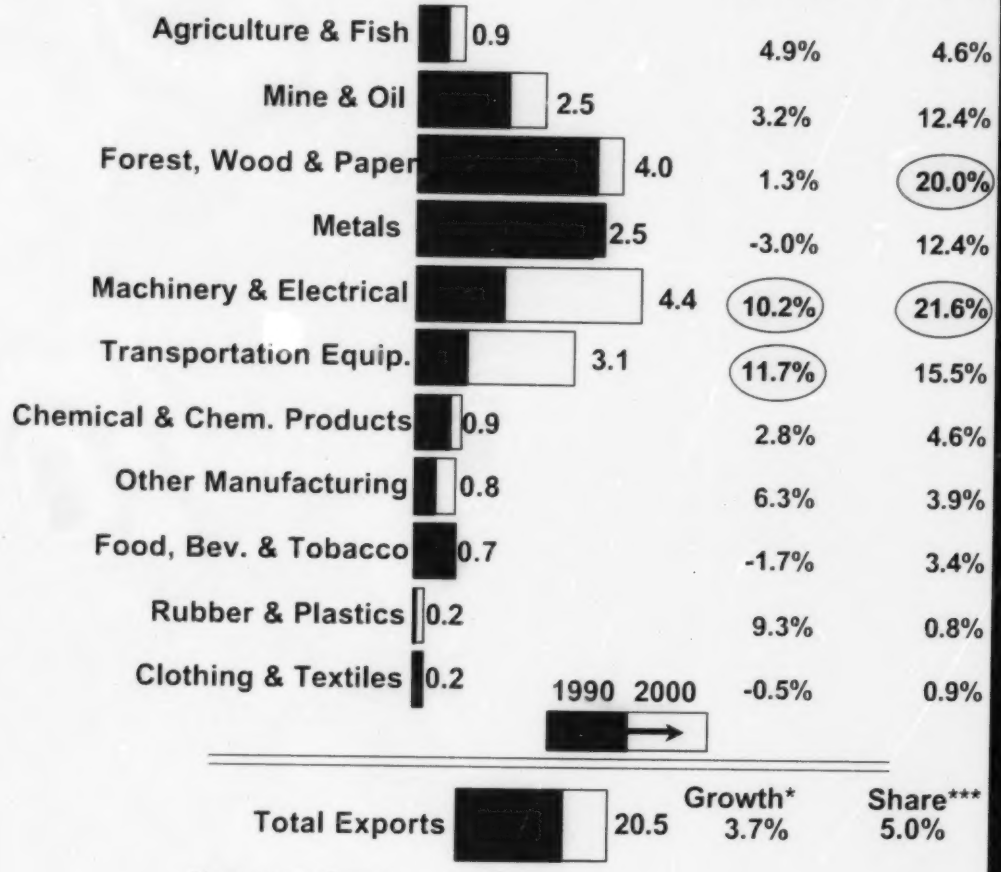
Canadian exports to Western Europe are evenly split between resource-based and non-resource based industries

- Half of Canada's exports to Western Europe are in resource-based industries such as Forestry, Wood and Paper, Metals, and Oil and Minerals.
- The other half is in non-resource based industries, and is dominated by Machinery & Electrical and Transportation Equipment.
  - These two industries were also the two fastest growing export industries to Western Europe during the 1990s.

Merchandise Exports to Western Europe



*Average annual growth
**Share of total Western European Exports
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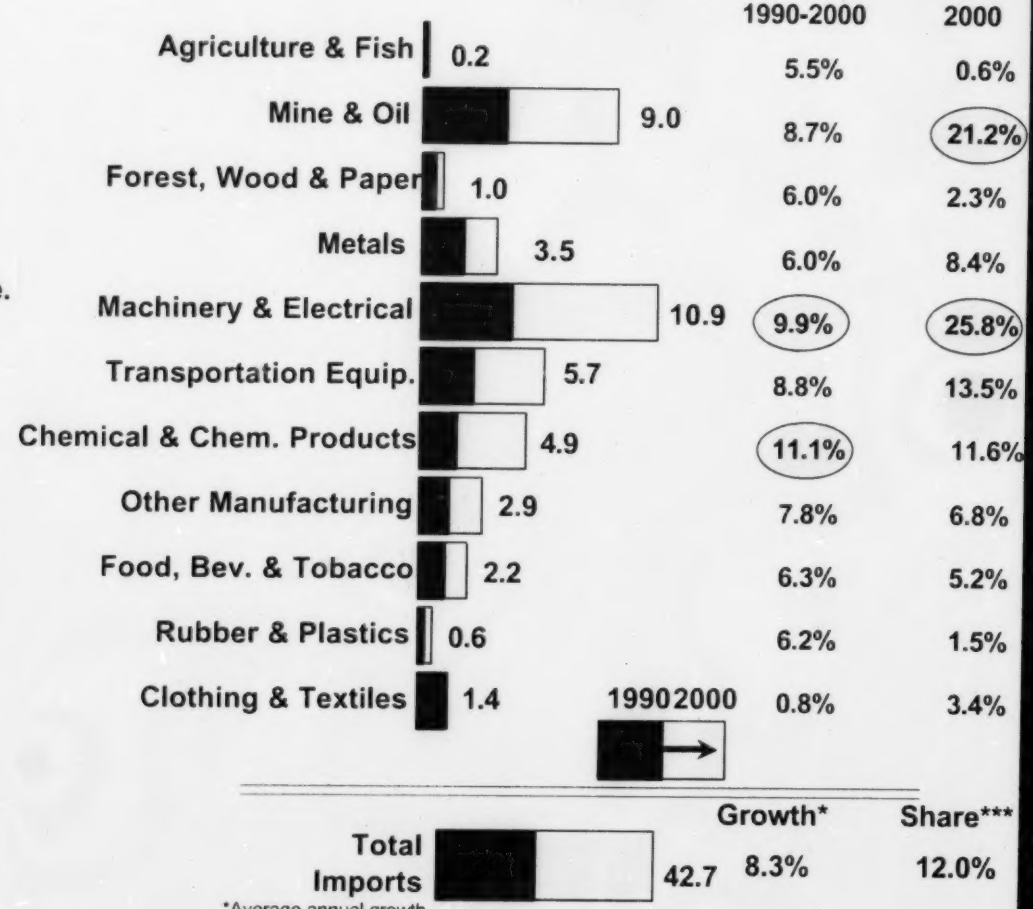
Source: Industry Canada compilations based on Statistics Canada data

Two-thirds of Canadian imports from Western Europe are non-resource based

- Non-resource based industries account for over two-thirds of Canada's imports from Western Europe. Machinery & Electrical, Transportation Equipment and Chemicals dominate.
- These three industries also registered fast import growth from Western Europe During the 1990s.

Merchandise Imports from Western Europe



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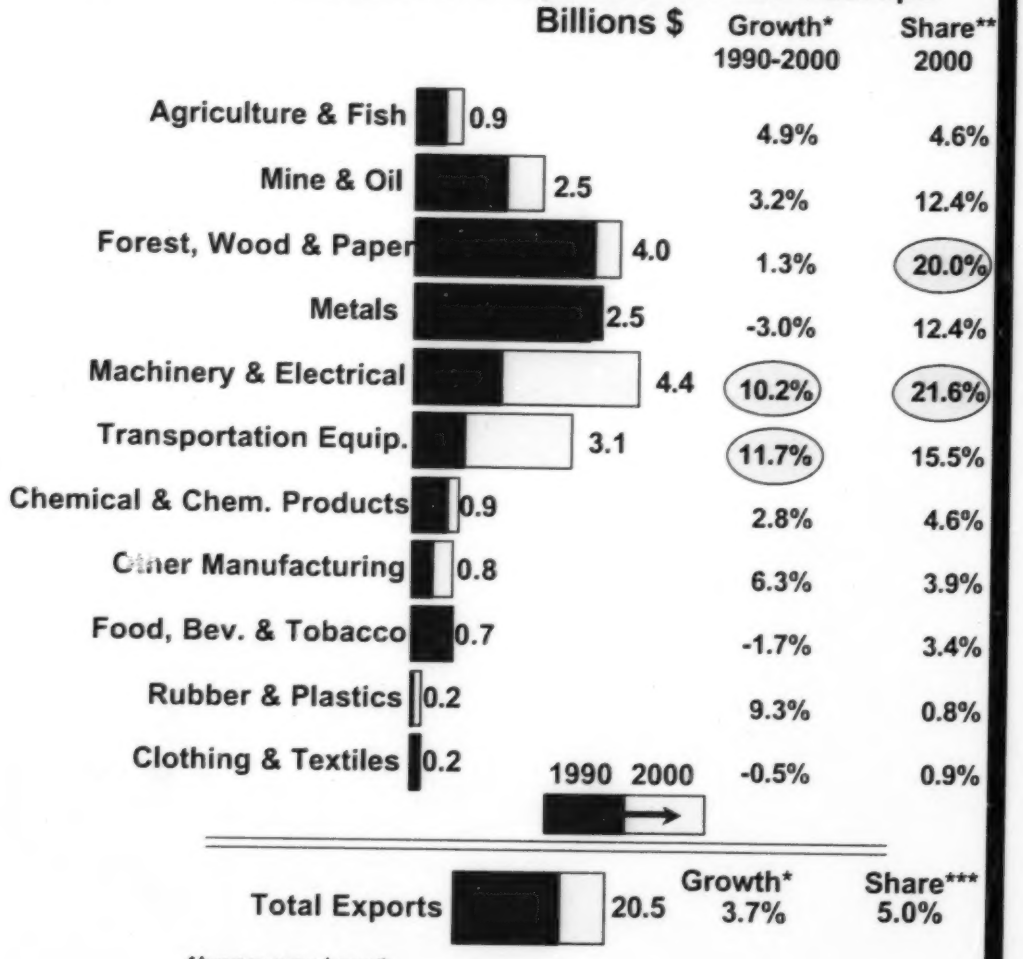

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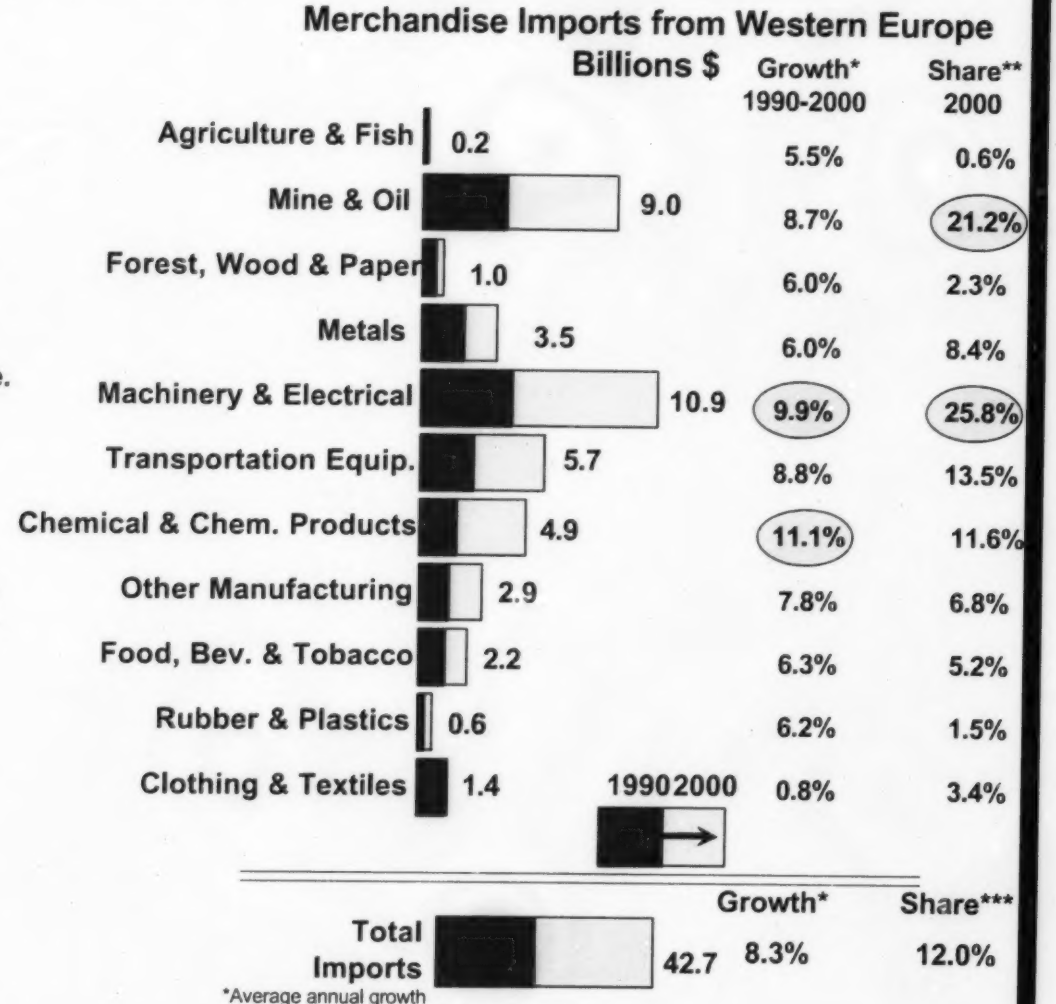
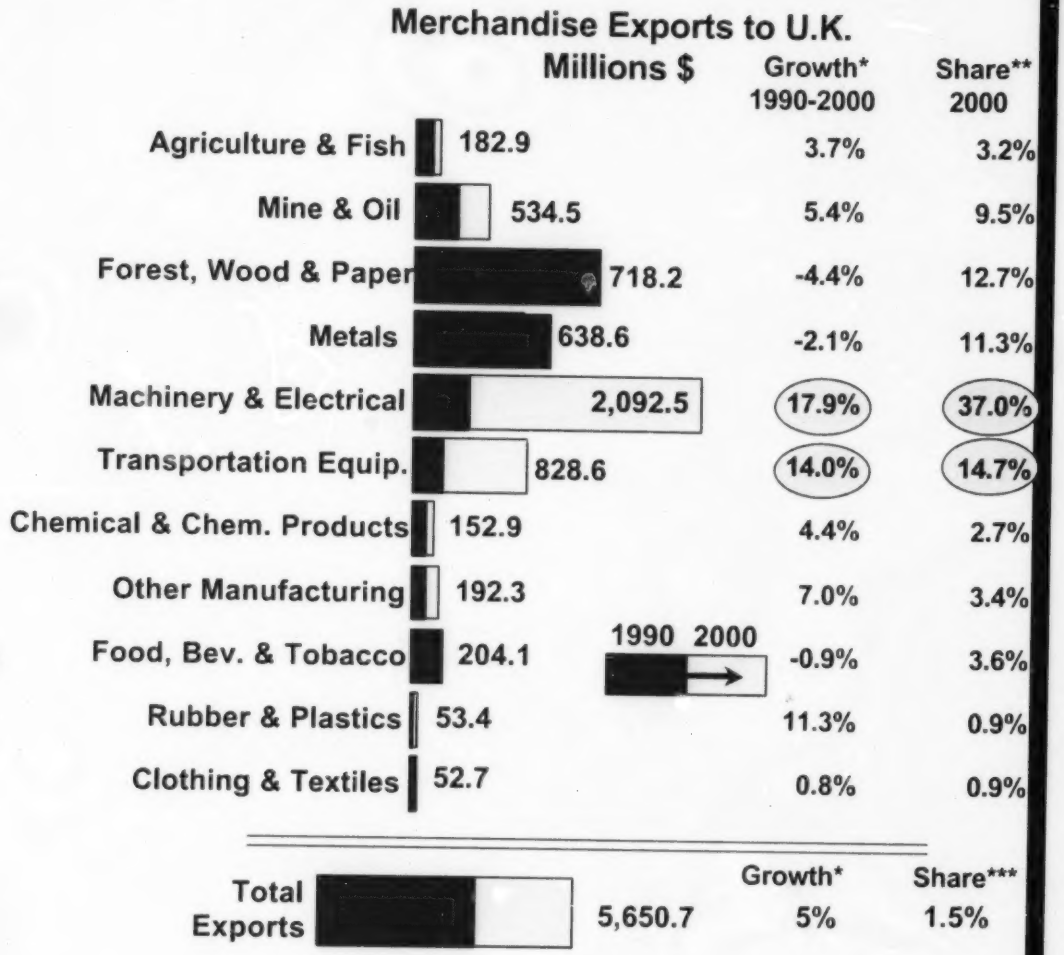


*Average annual growth
**Share of total Western European imports
***Share of total Canadian imports
Source: Industry Canada compilations based on Statistics Canada data

Canadian export growth to U.K. is heavily concentrated in two sectors

- Machinery & Electrical and Transportation Equipment industries represent over half of Canada's total exports to the U.K.
  - ▸ Much of Canada's export growth to the U.K. also came from these two industries.
- On the other hand, growth in resource-based industries such as Forest, Wood & Paper and Metals actually declined over the same period.



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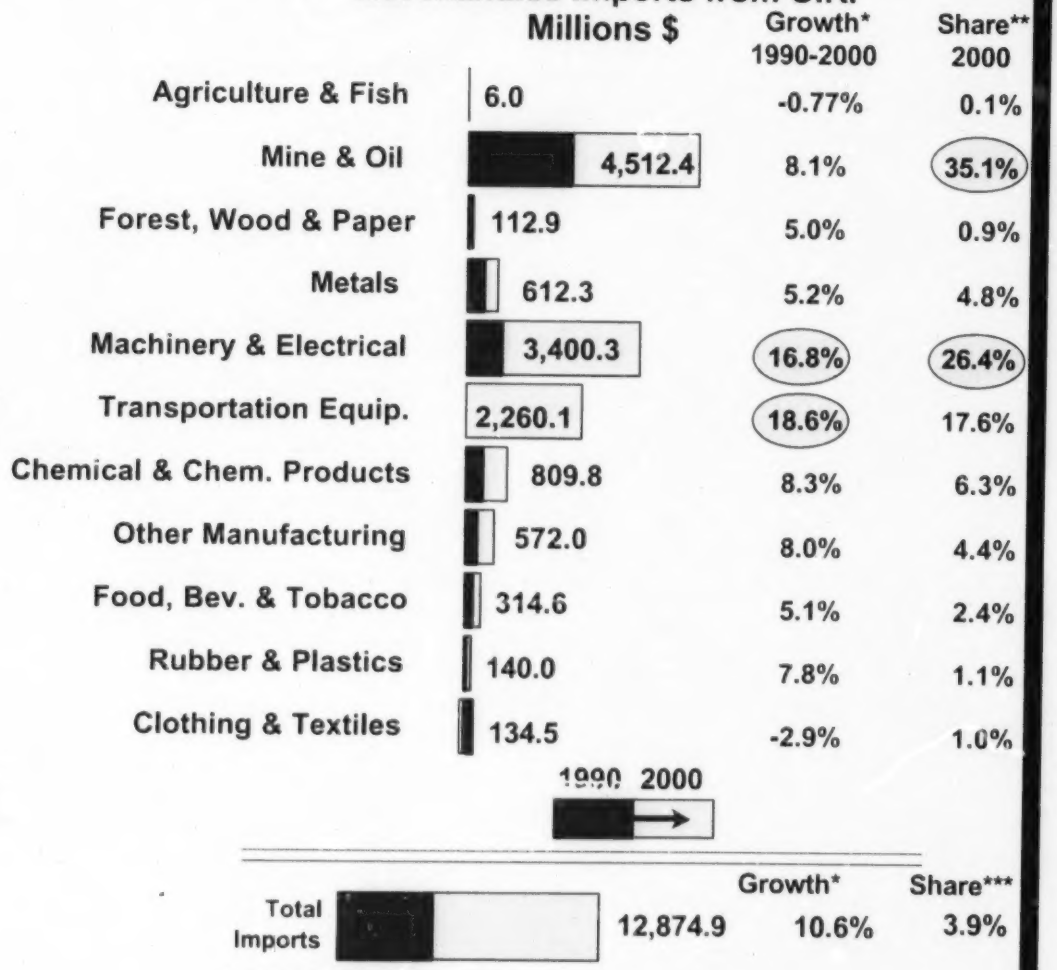
Source: Industry Canada compilations based on Statistics Canada data

The same two industries also drove much of the import growth from the U.K.

- Growth in Canadian imports from the U.K. was largely driven by Machinery & Electronics, Transportation Equipment and Chemicals. Unlike exports, however, Mining & Oil imports also grew at a rapid pace and accounted for over one-third of imports from the U.K. in 2000.
  - These four industries alone, accounted for over 85 percent of total Canadian imports from the U.K. in 2000.
  - The U.K. accounted for about half of Canada's Oil imports from Western Europe.

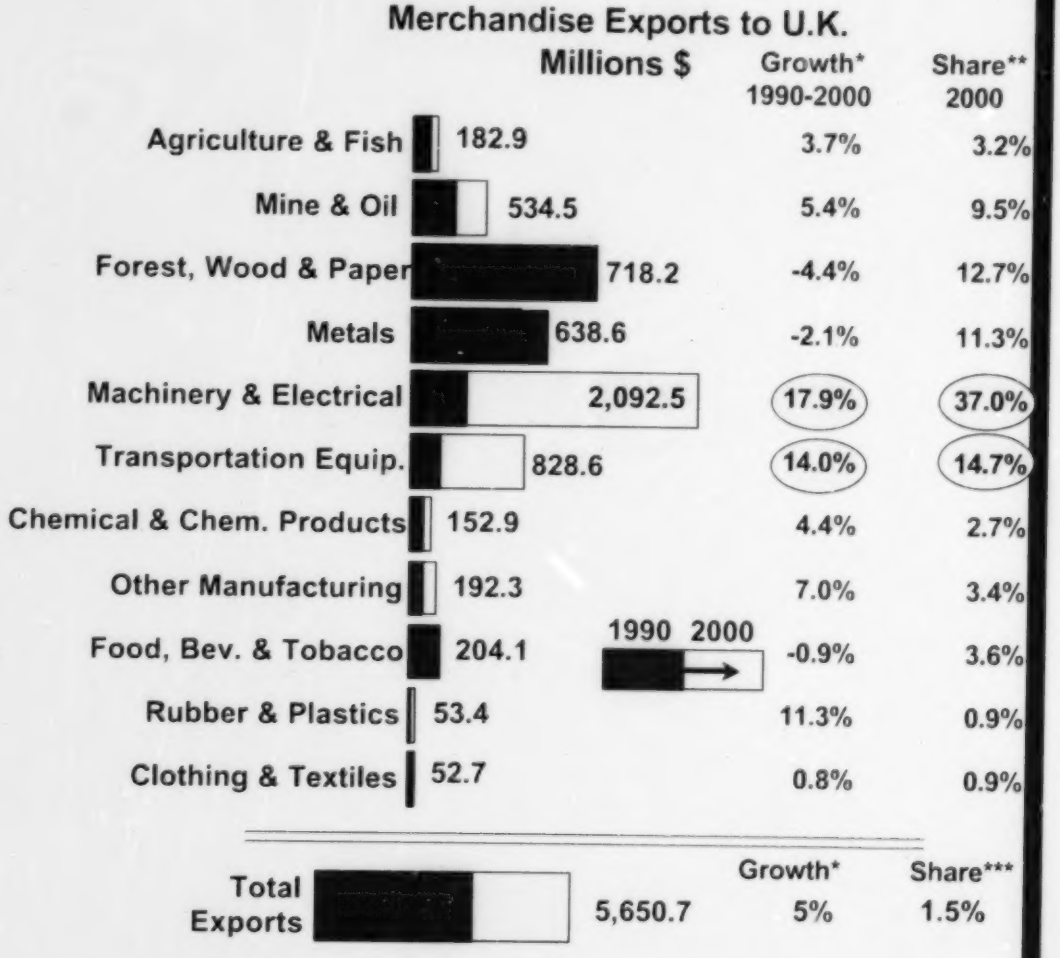
Merchandise Imports from U.K.



*Average annual growth
**Share of total Imports from U.K.
***Share of total Canadian imports
Source: Industry Canada compilations based on Statistics Canada data

Canadian export growth to U.K. is heavily concentrated in two sectors

- **Machinery & Electrical and Transportation Equipment industries represent over half of Canada's total exports to the U.K.**
  - **Much of Canada's export growth to the U.K. also came from these two industries.**
- **On the other hand, growth in resource-based industries such as Forest, Wood & Paper and Metals actually declined over the same period.**



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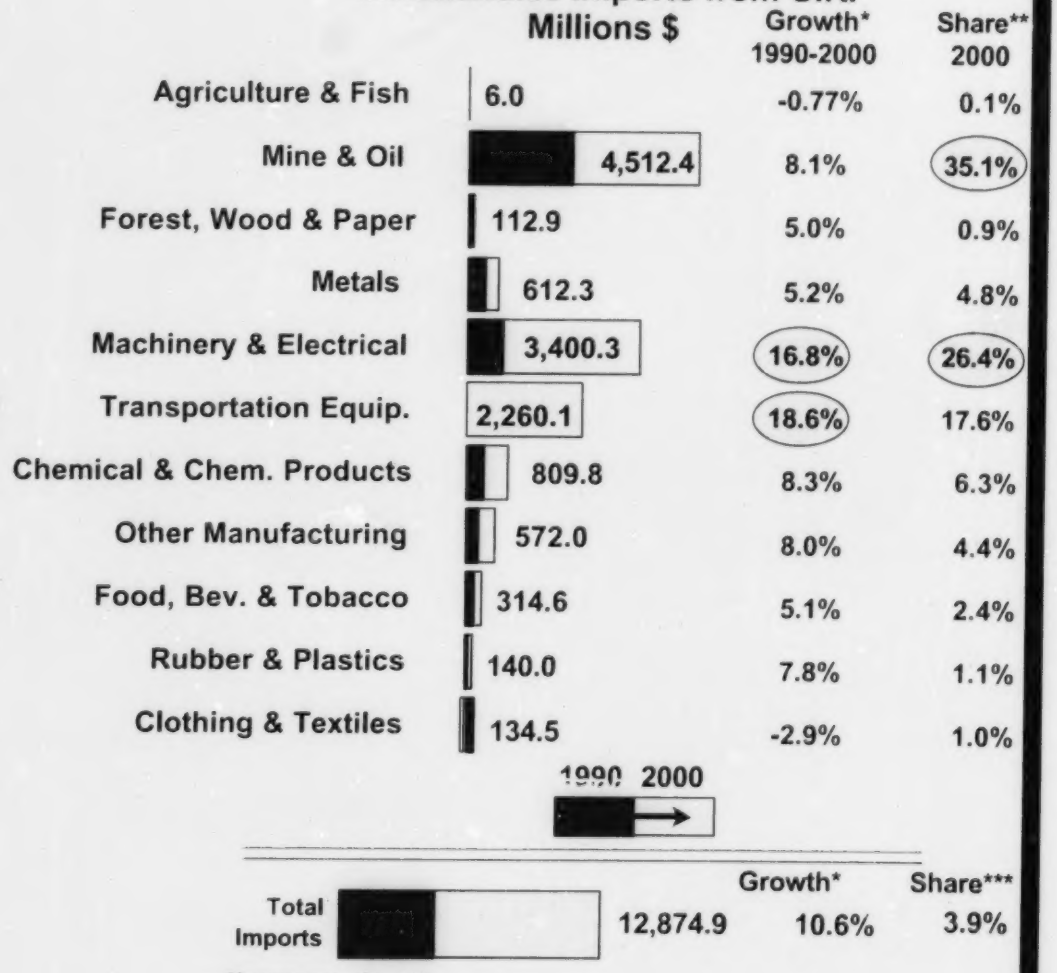

*Average annual growth
**Share of total Imports from U.K.
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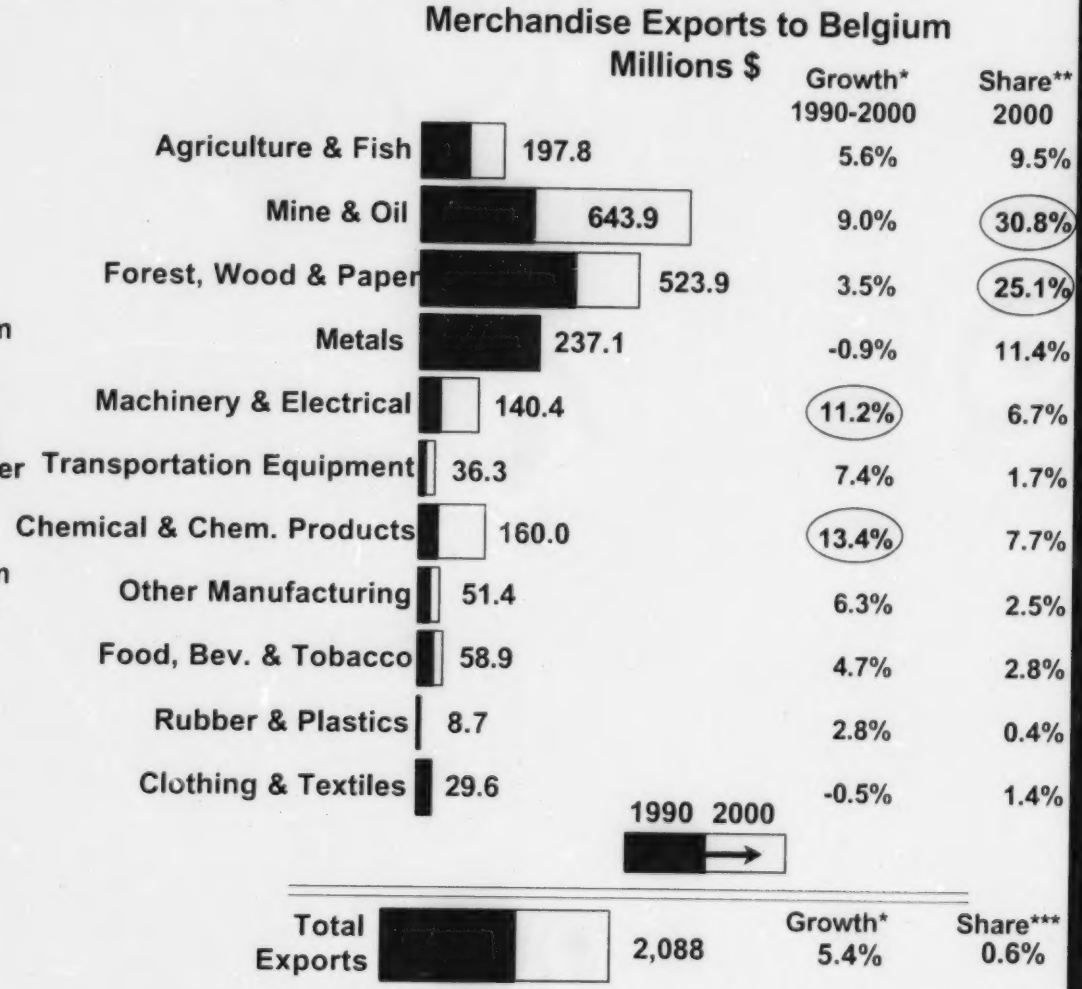
Source: Industry Canada compilations based on Statistics Canada data

Canadian exports to Belgium are mostly in resource-based industries

- Canadian exports to Belgium are heavily concentrated in resource & resource-based industries such as Mining & Oil, Forestry, Wood and Paper and Agriculture & Fish.
- Canadian exports to Belgium are likely overstated as they are likely destined for elsewhere in Europe.



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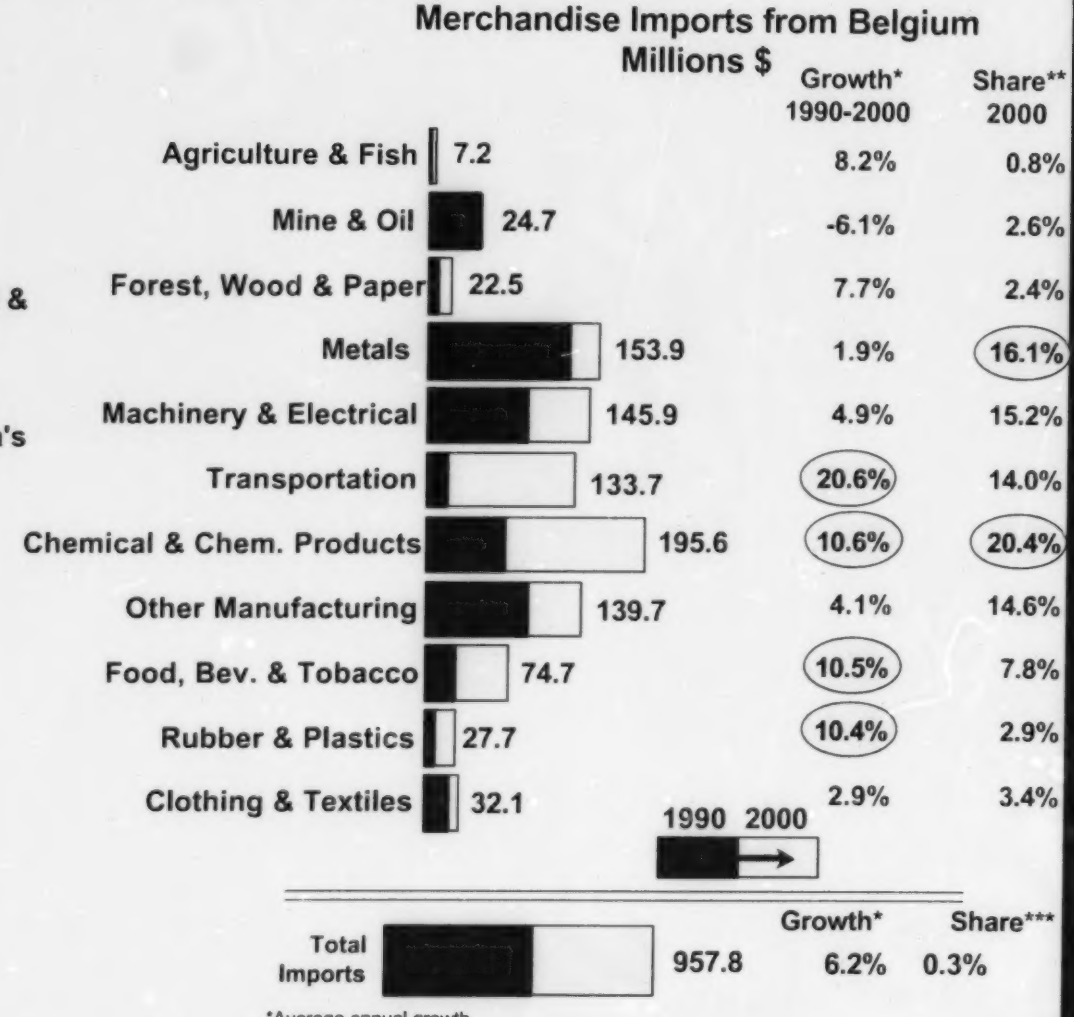
Industry Canada Industrie Canada

Canadian imports from Belgium are much more diversified

- **Chemicals & Chemical Products, Metals, Electrical & Machinery, Transportation Equipment and Other Manufacturing account for about 80 percent of Canada's imports from Belgium.**



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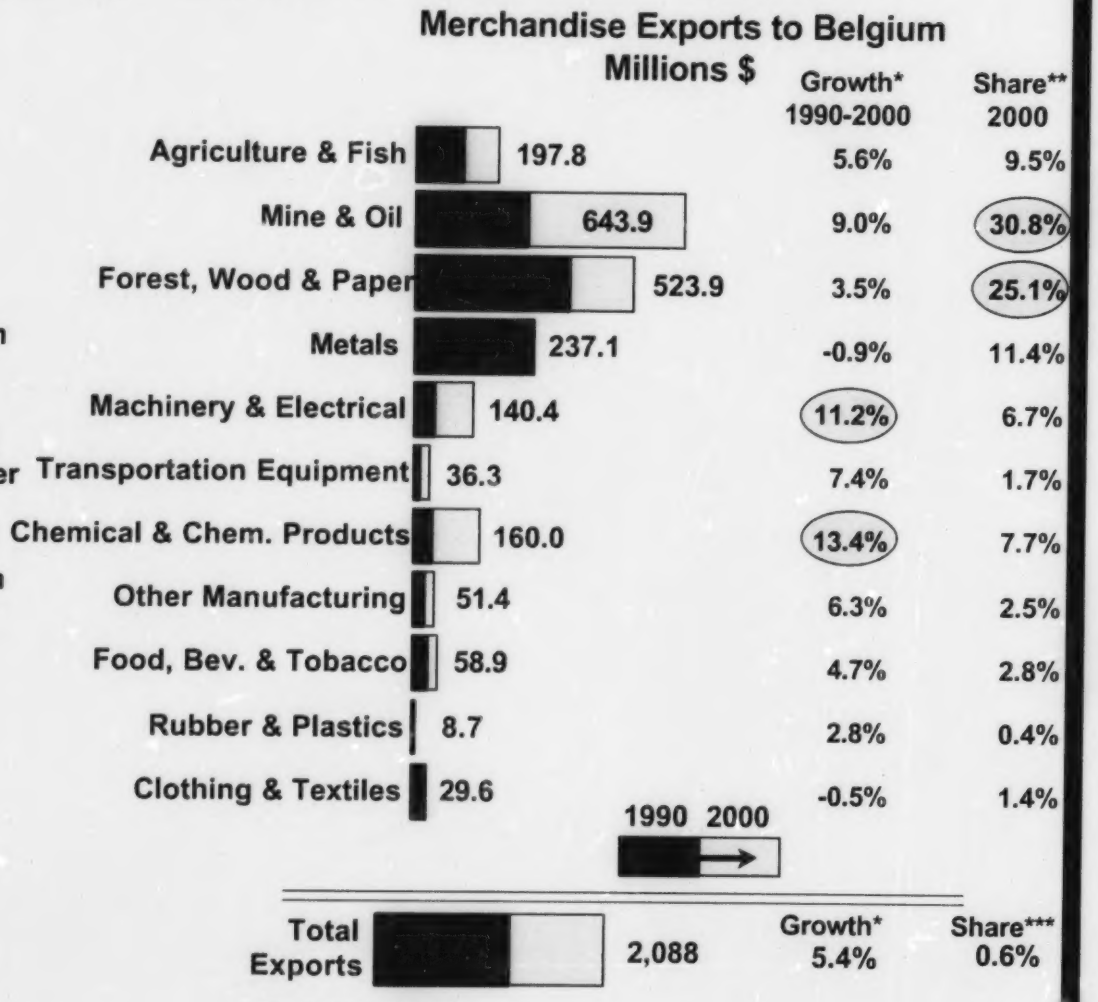

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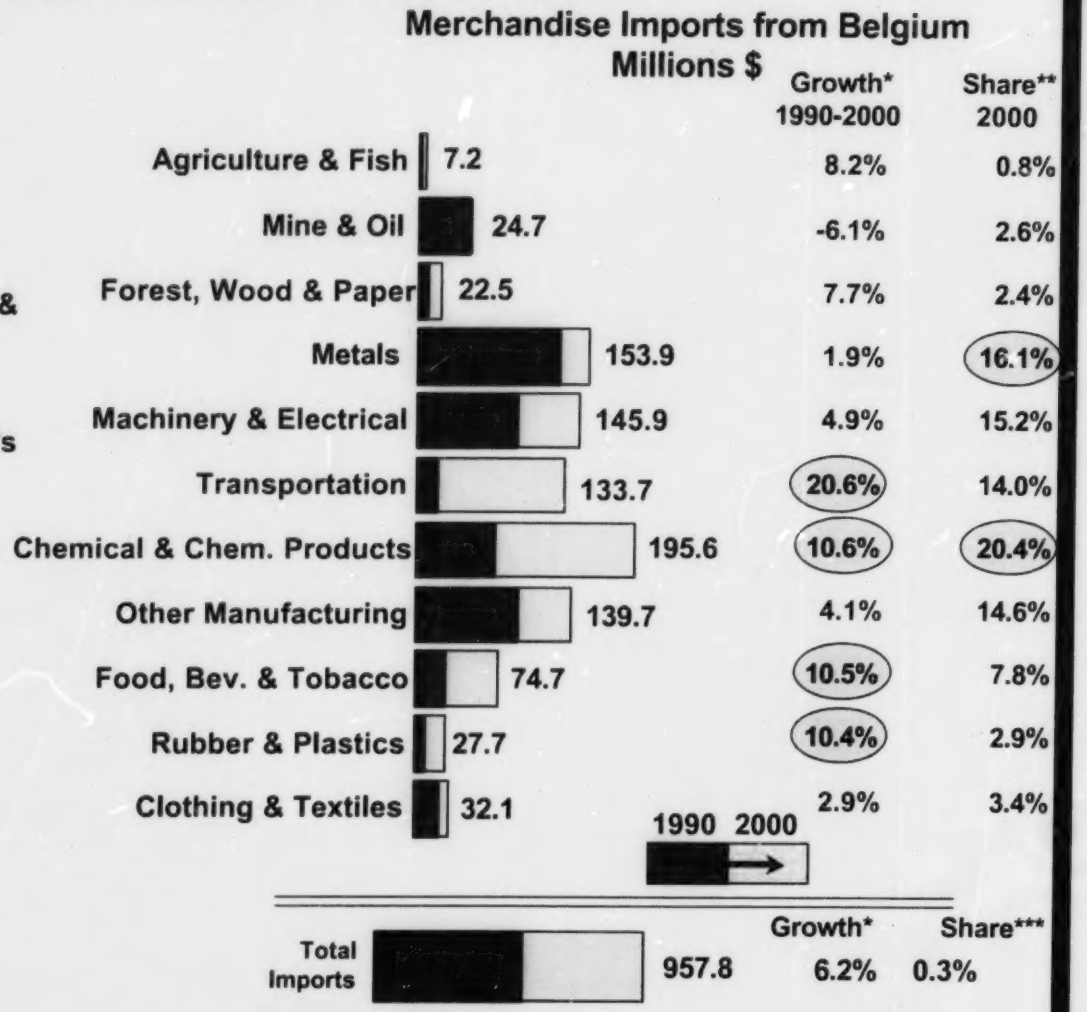

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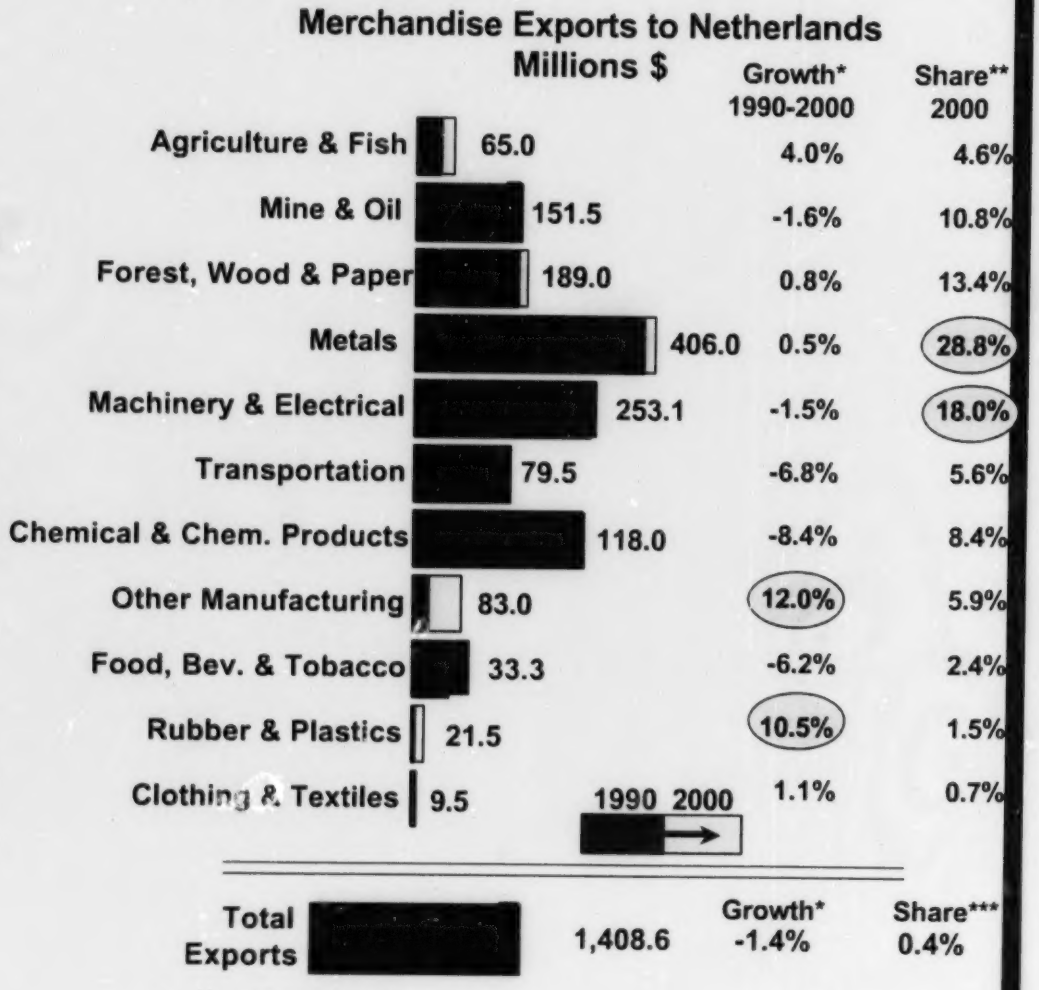
Source: Industry Canada compilations based on Statistics Canada data

Canadian exports to the Netherlands declined

- Canada, exported $220 million less to the Netherlands in 2000 than in 1990.
  - ▸ Much of this decline occurred in Chemicals and Transportation Equipment.
- Resource and resource-based industries represent almost 60 percent of Canada's exports to the Netherlands.
  - ▸ However, Machinery & Electrical remains the second most important industry in terms of exports to the Netherlands, accounting for 18 percent of Canadian exports to that country.



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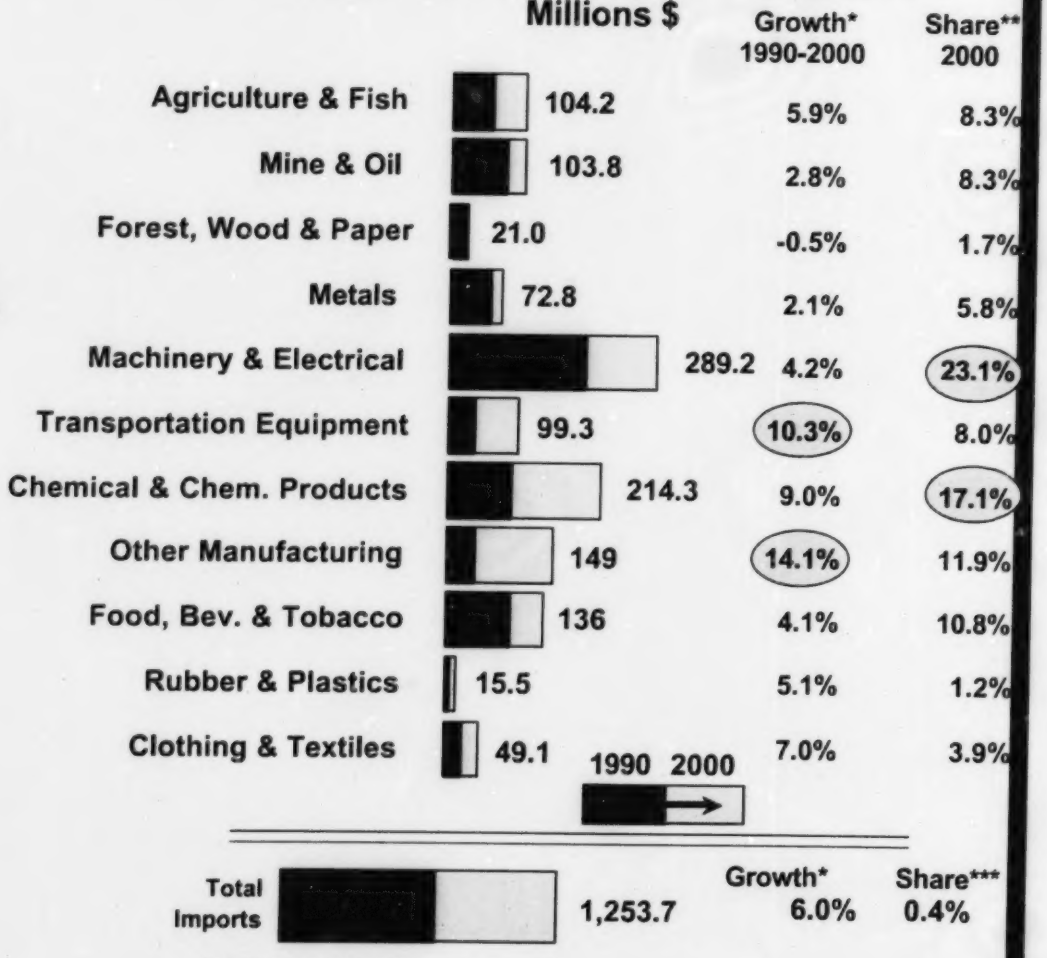
Imports from the Netherlands are largely in "high-tech" industries

- Three "high-tech" industries account for more than half of Canada's imports from the Netherlands; Machinery & Electrical, Chemical & Chemical Products and Other Manufacturing which includes scientific equipment.

Merchandise Imports from Netherlands



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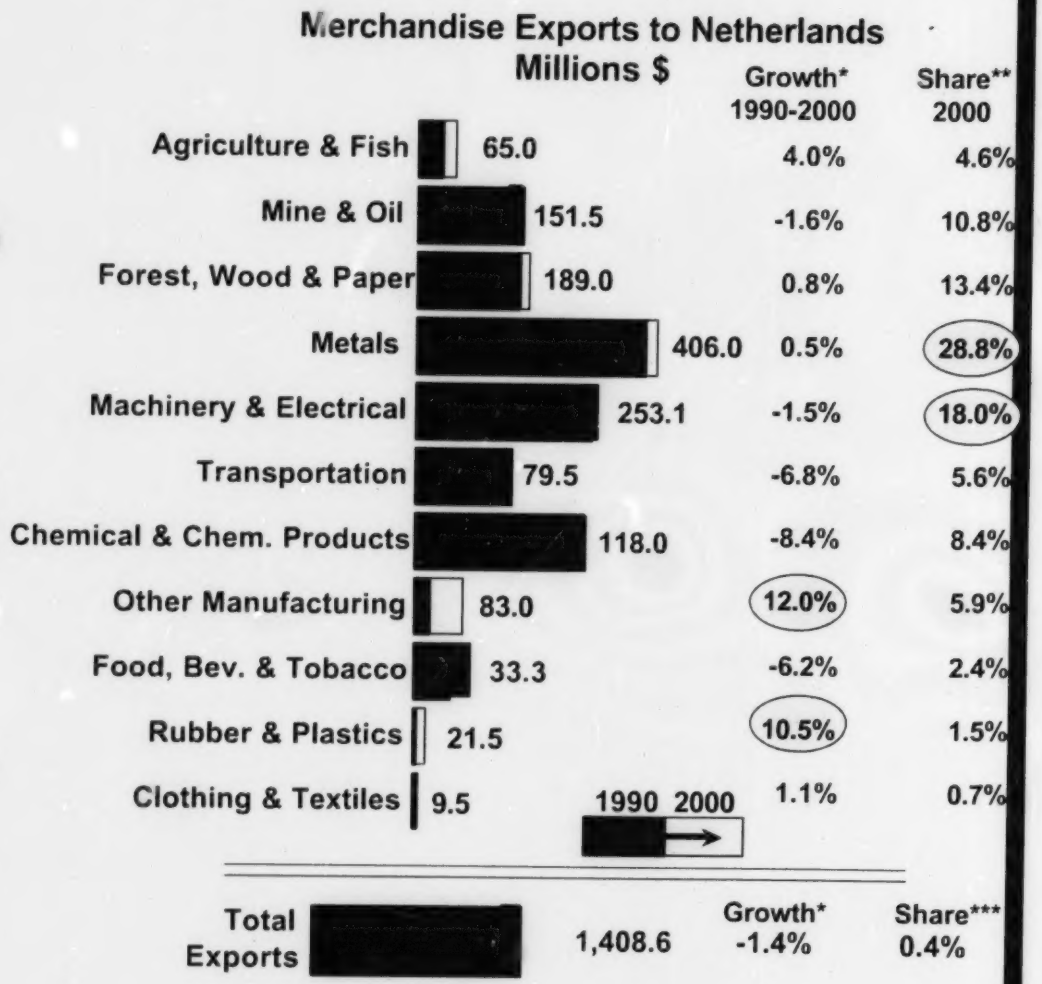

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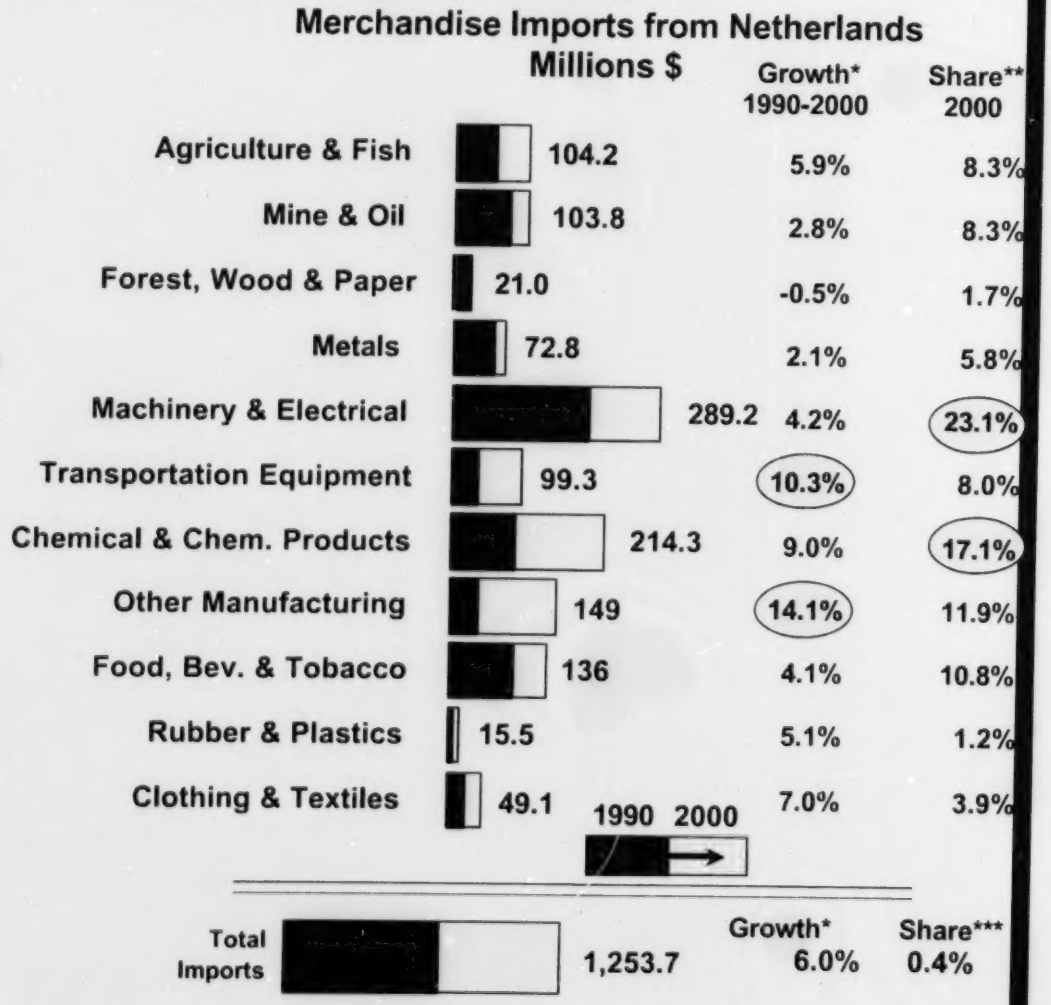

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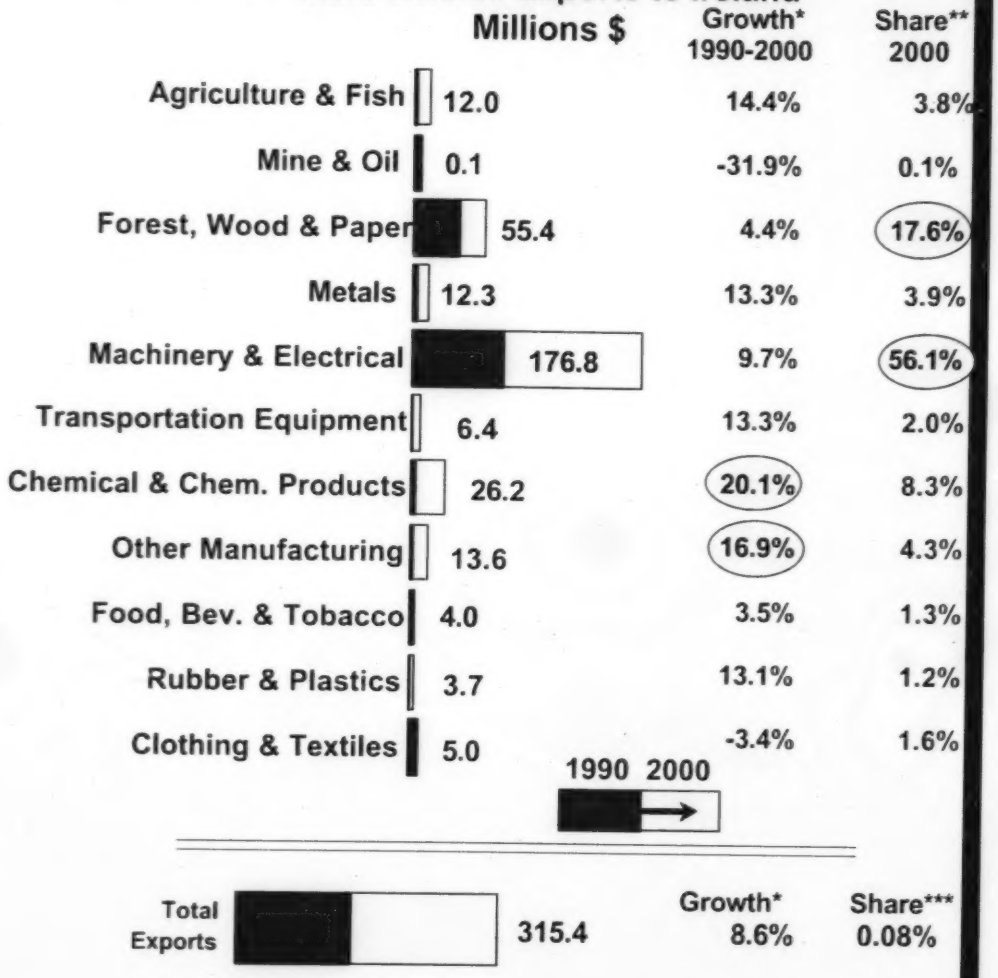
Source: Industry Canada compilations based on Statistics Canada data

Machinery & Electrical accounts for more than half of Canadian exports to Ireland

- Machinery and Electrical exports accounted for 56 percent of Canadian merchandise exports to Ireland in 2000.
- At 8.6 percent, Ireland witnessed the fastest growth of Canadian exports of any major European country.
  - 6 out of 11 industries had double digit export growth over the 1990s.

Merchandise Exports to Ireland



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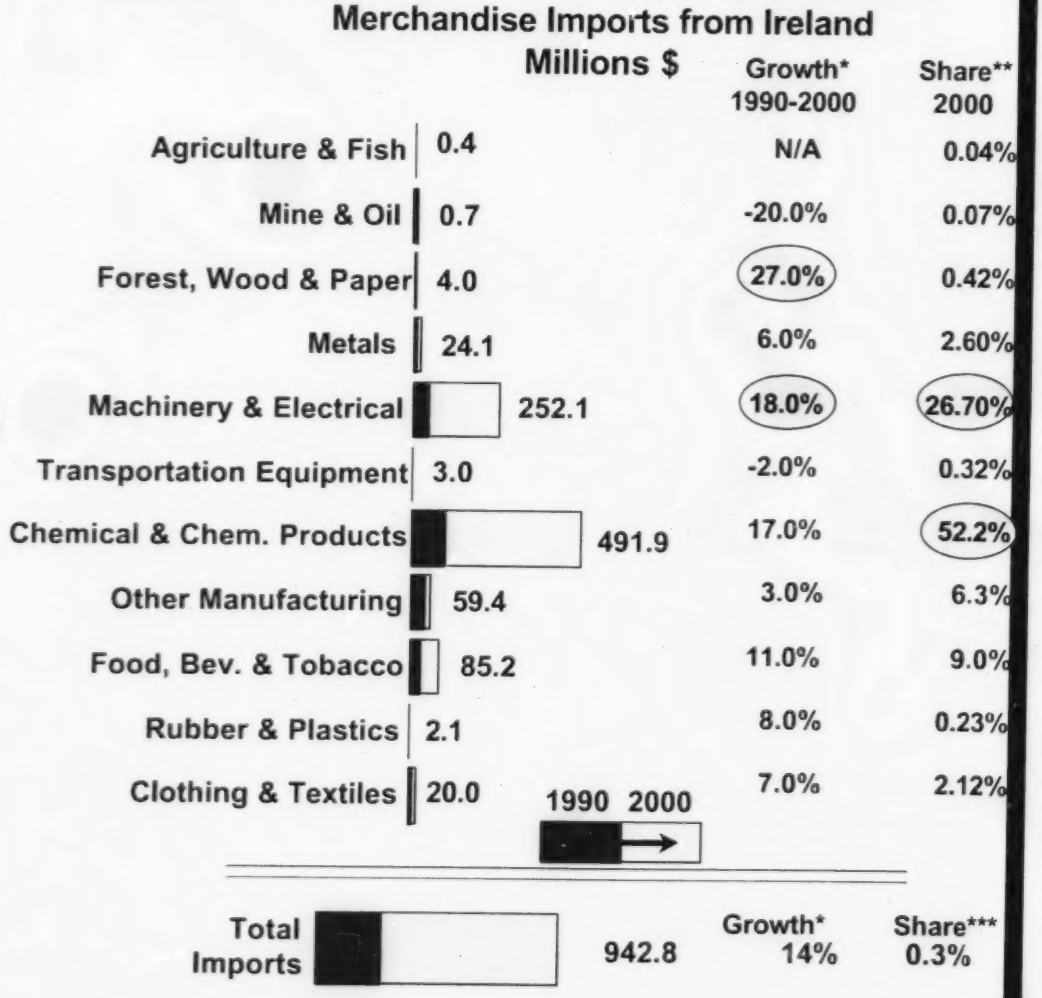
Nearly 80 percent of Canada's imports from Ireland were in only two industries

- Chemicals and Machinery & Electronics accounted for 79 percent of Canadian imports from Ireland, and grew respectively at 17 percent and 18 percent annually.



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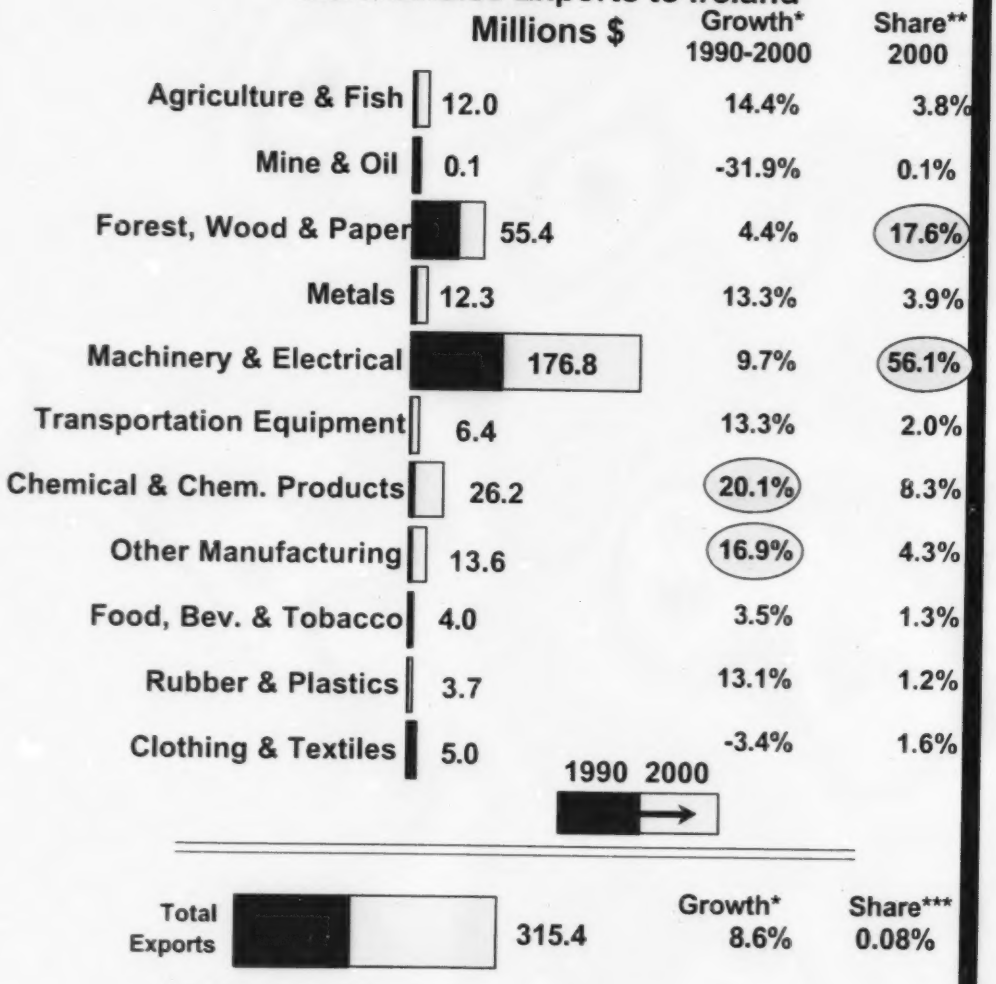

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Merchandise Imports from Ireland

	Millions $	Growth* 1990-2000	Share** 2000
Agriculture & Fish	0.4	N/A	0.04%
Mine & Oil	0.7	-20.0%	0.07%
Forest, Wood & Paper	4.0	27.0%	0.42%
Metals	24.1	6.0%	2.60%
Machinery & Electrical	252.1	18.0%	26.70%
Transportation Equipment	3.0	-2.0%	0.32%
Chemical & Chem. Products	491.9	17.0%	52.2%
Other Manufacturing	59.4	3.0%	6.3%
Food, Bev. & Tobacco	85.2	11.0%	9.0%
Rubber & Plastics	2.1	8.0%	0.23%
Clothing & Textiles	20.0	7.0%	2.12%
Total Imports	942.8	Growth* 14%	Share*** 0.3%

*Average annual growth
**Share of total Imports from Ireland
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Source: Industry Canada compilations based on Statistics Canada data

Over 45 percent of Canadian exports to Germany are in resource-based industries

- **Forest, Wood & Paper exports alone accounted for approximately 28 percent of Canadian exports to Germany in 2000. Nevertheless, Machinery & Electrical and Transportation Equipment industries also represented nearly 40 percent of Canadian exports.**

Merchandise Exports to Germany

	Millions $	Growth* 1990-2000	Share** 2000
Agriculture & Fish	70.0	2.1%	2.3%
Mine & Oil	364.2	1.3%	11.7%
Forest, Wood & Paper	865.7	1.1%	27.9%
Metals	158.2	-6.7%	5.1%
Machinery & Electrical	649.7	7.1%	20.9%
Transportation Equip.	579.4	10.9%	18.7%
Chemical & Chem. Products	146.3	6.1%	4.7%
Other Manufacturing	143.7	5.9%	4.6%
Food, Bev. & Tobacco	84.7	1.7%	2.7%
Rubber & Plastics	22.4	9.8%	0.7%
Clothing & Textiles	18.2	-3.0%	0.6%

		Growth*	Share***
Total Exports	3,102.5	3.2%	0.82%

*Average annual growth
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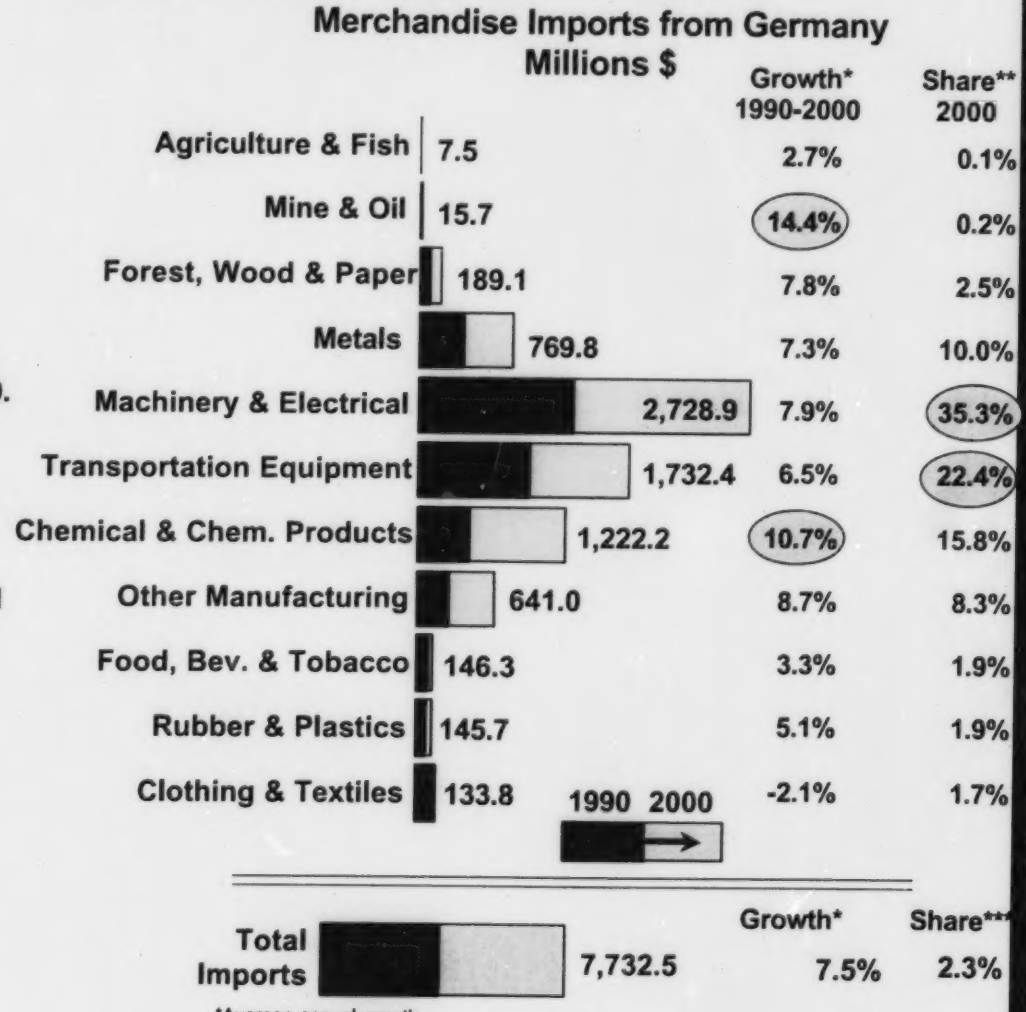
Source: Industry Canada compilations based on Statistics Canada data

Canadian imports from Germany are mainly in "high-tech" industries

- Resource-based industries accounted for less than 15 percent of all Canadian imports from Germany in 2000.
- The top three industries imports from Germany are all "high-tech" industries; Machinery & Electrical, Transportation Equipment and Chemical & Chemical Products.
  - These three industries accounted for close to 80 percent of all Canadian imports from Germany in 2000.



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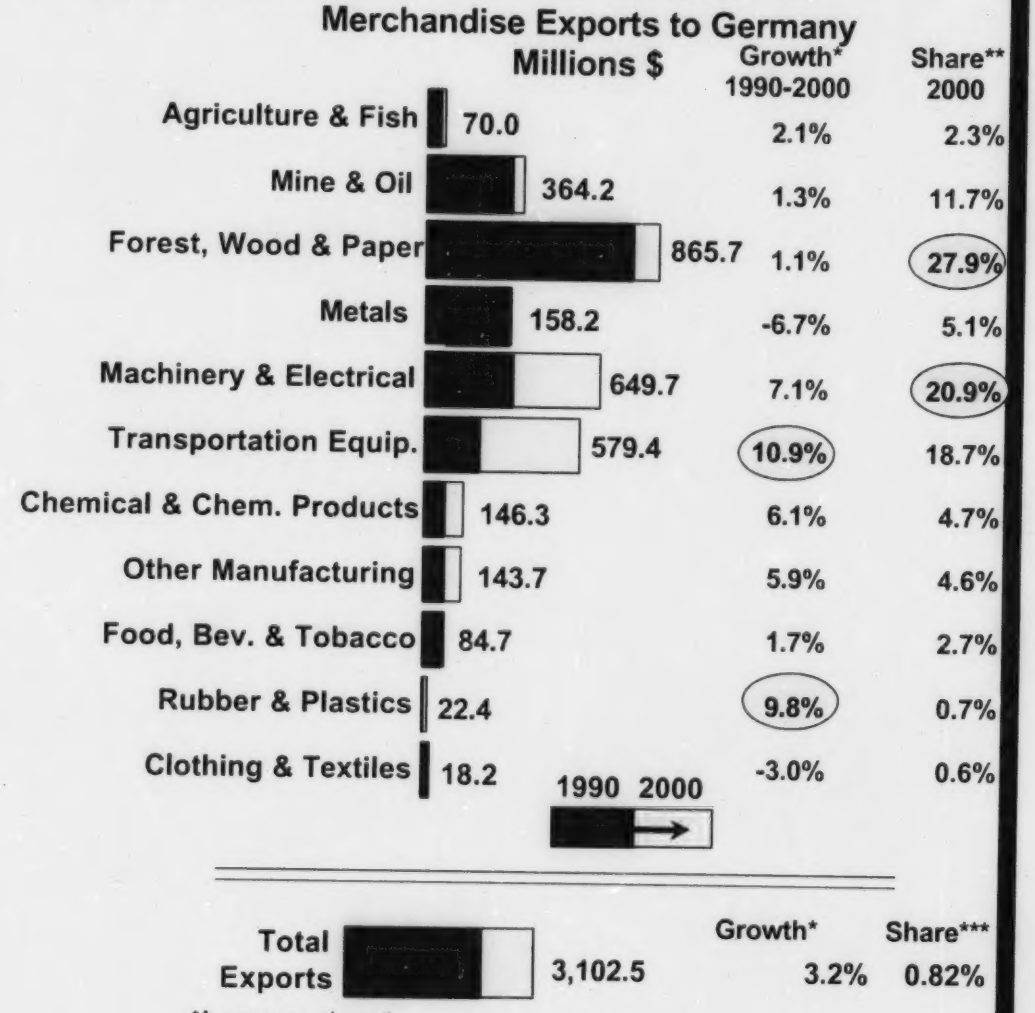

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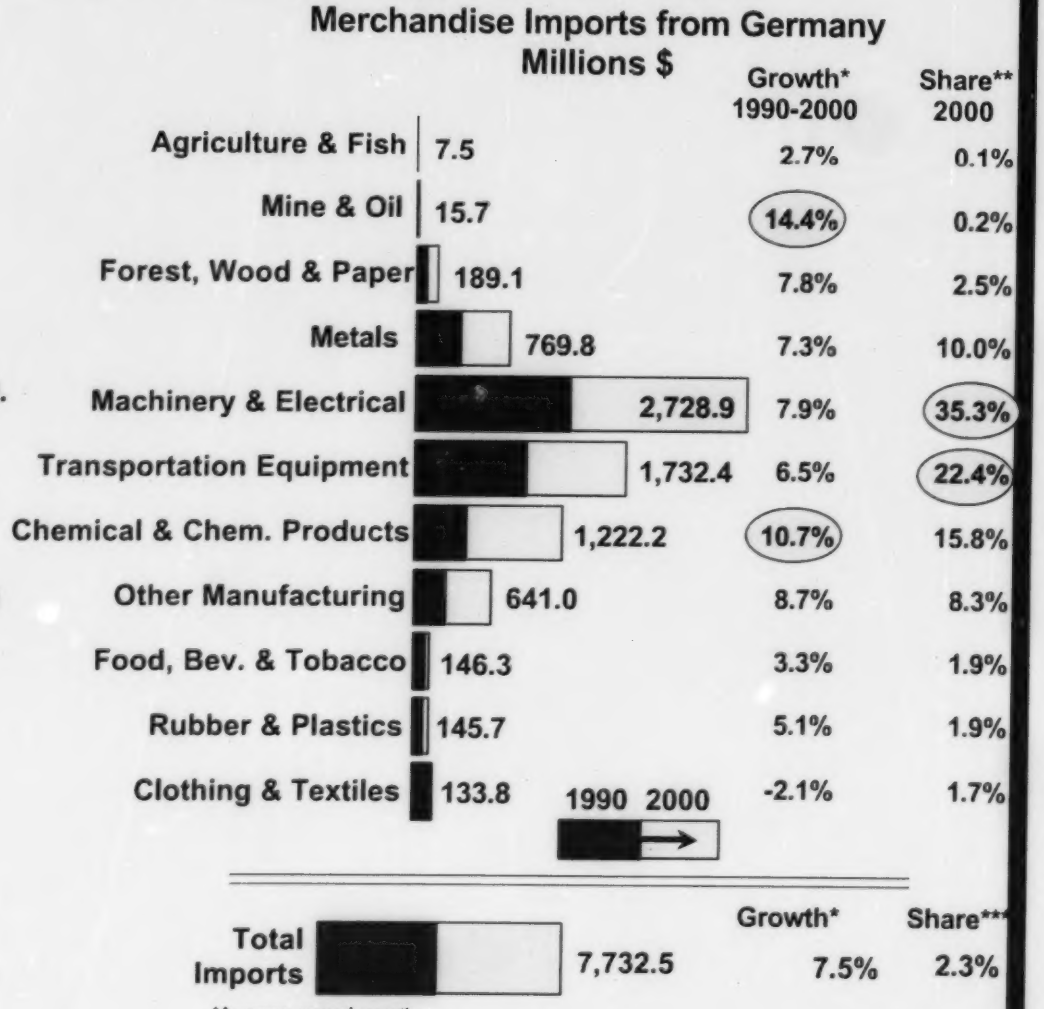

*Average annual growth
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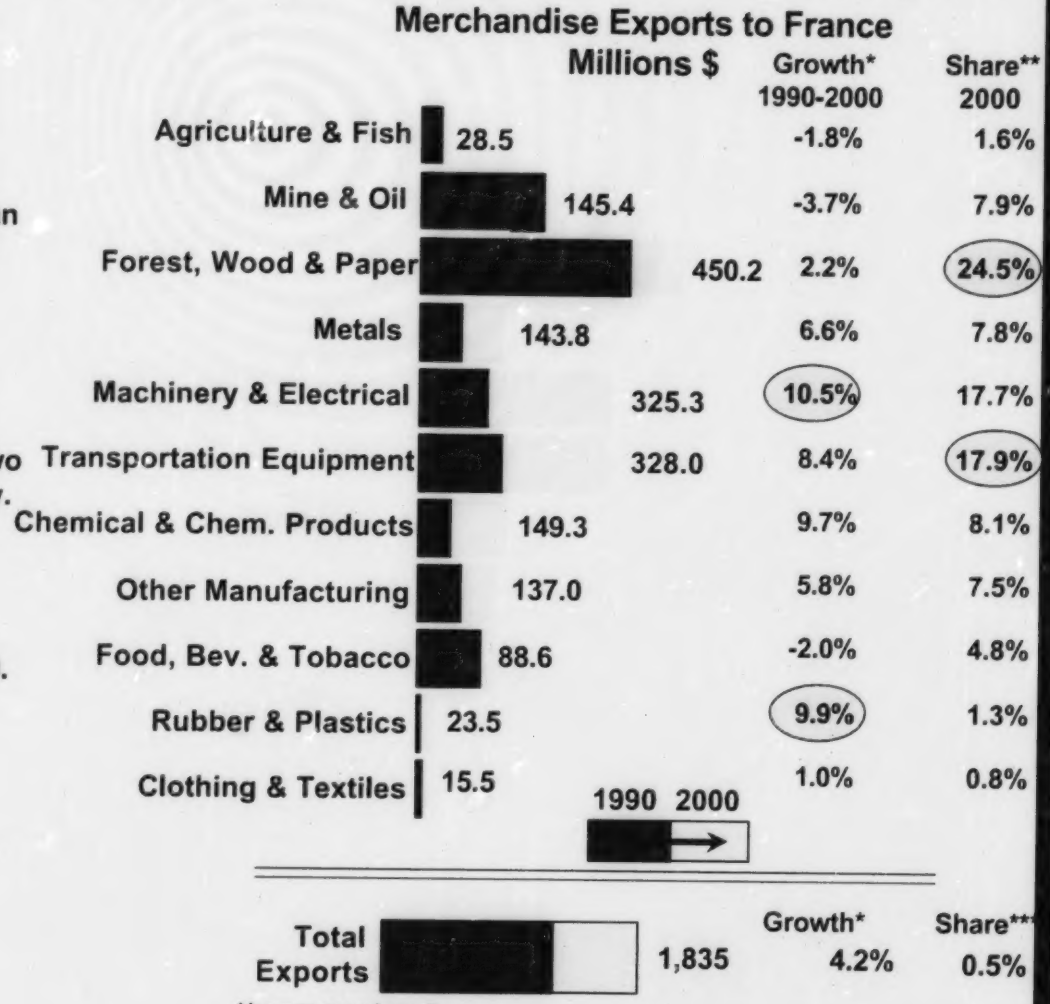
Source: Industry Canada compilations based on Statistics Canada data

Resource-based industries still account for over 40 percent of Canada's exports to France

- Almost a quarter of Canadian exports to France are in the Forest, Wood & Paper industries.
- Machinery & Electrical and Transportation Equipment have jumped into number two and three spots respectively.
  - These two industries accounted for over 35 percent of Canada's exports to France in 2000.



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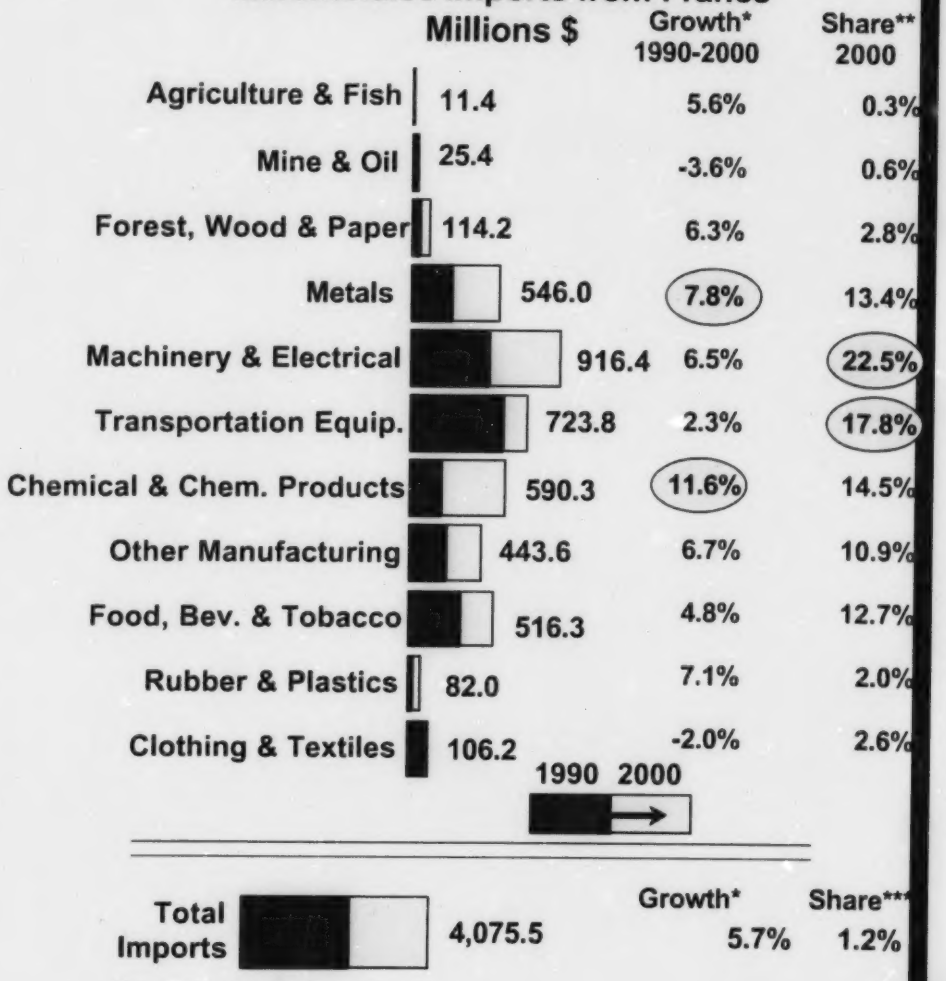
Source: Industry Canada compilations based on Statistics Canada data

More than 80 percent of Canadian imports from France are in non-resource-based industries

- **Machinery & Electrical, Transportation Equipment and Chemical industries represented over 50 percent of total imports from France in 2000.**

Merchandise Imports from France



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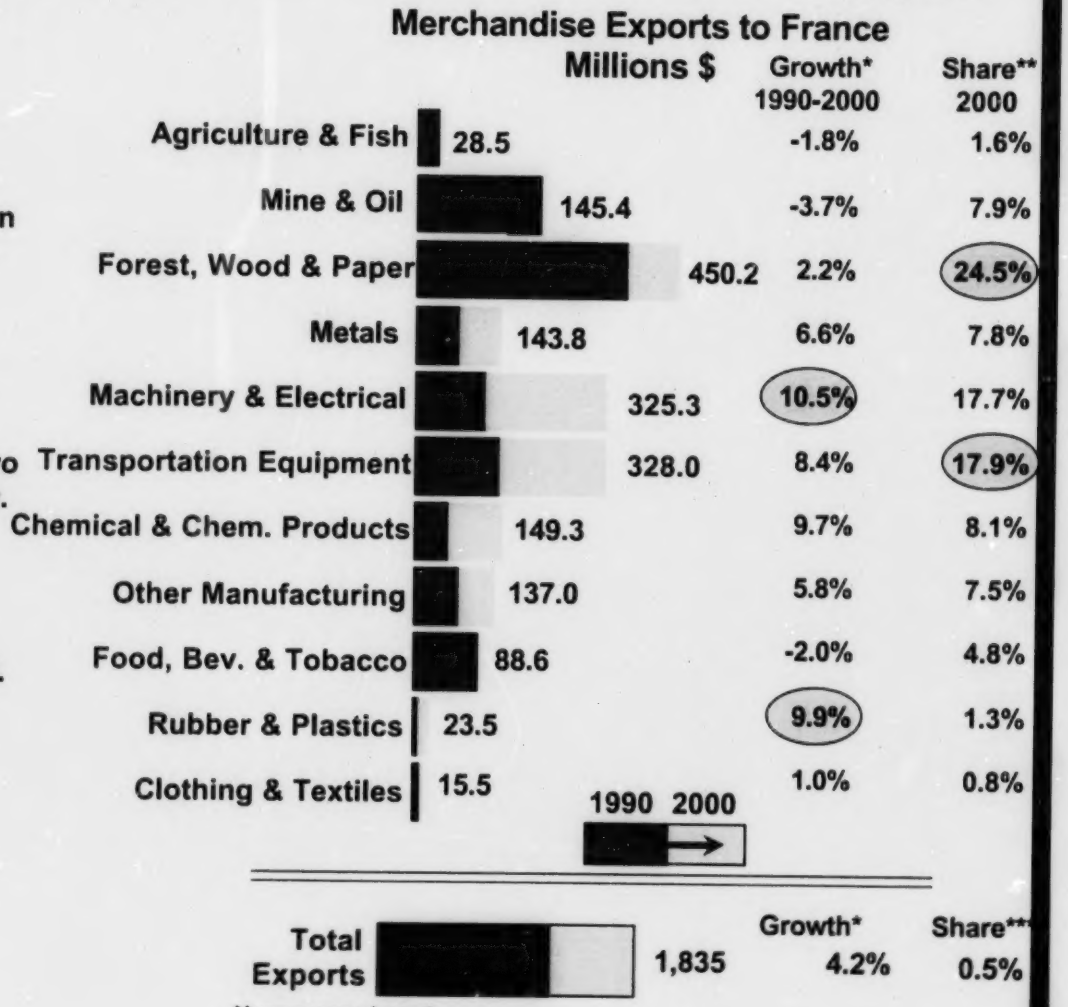

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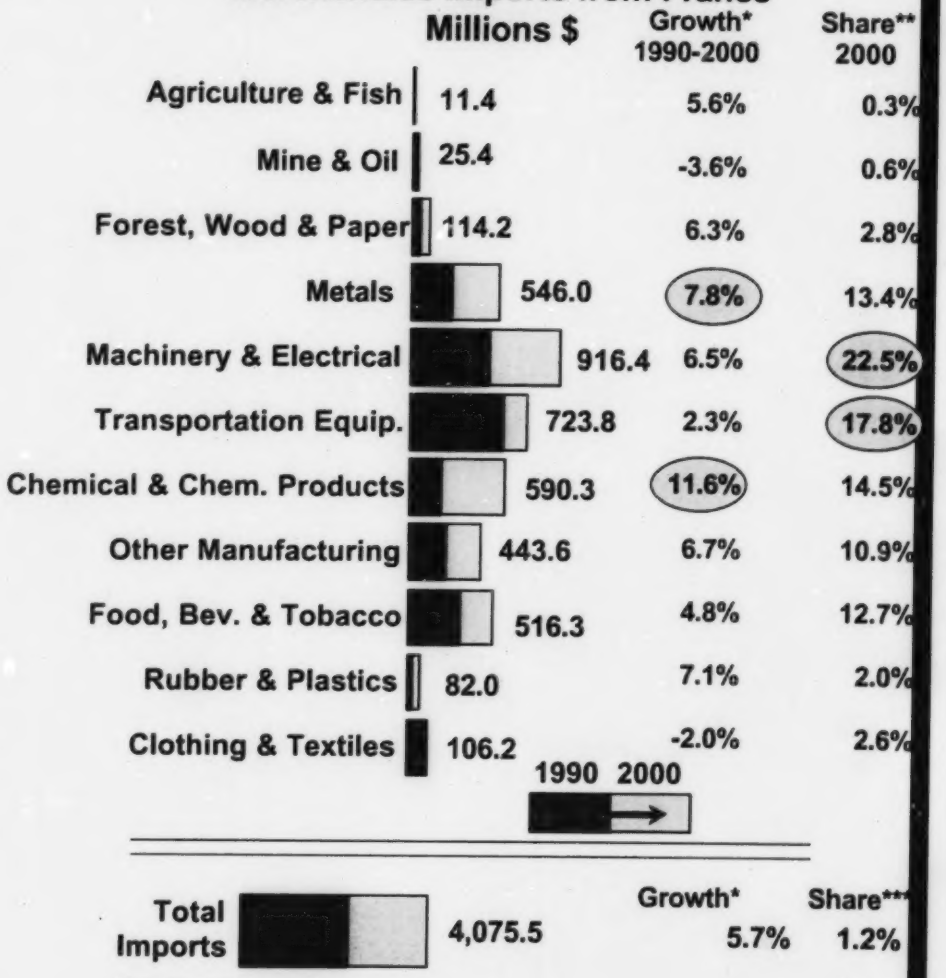

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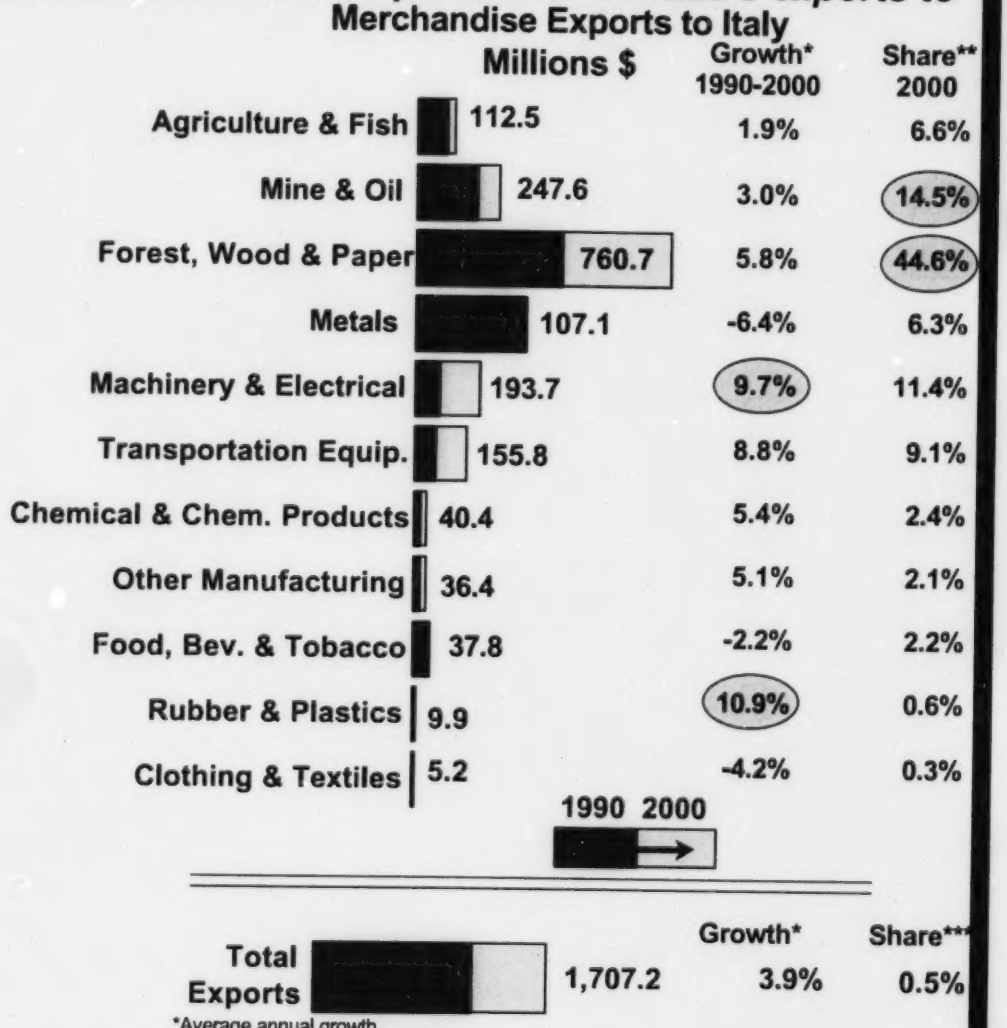
Resource-based products represent more than 70 percent of Canada's exports to Italy

- Italy is the most resource intensive of Canada's export destinations in Europe.
- Forest, Wood & Paper alone accounted for 45 percent of Canadian exports to Italy. Other resoruce-based industries make up another quarter of total exports.



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Clothing & Textiles represent almost 20 percent of Canadian imports from Italy

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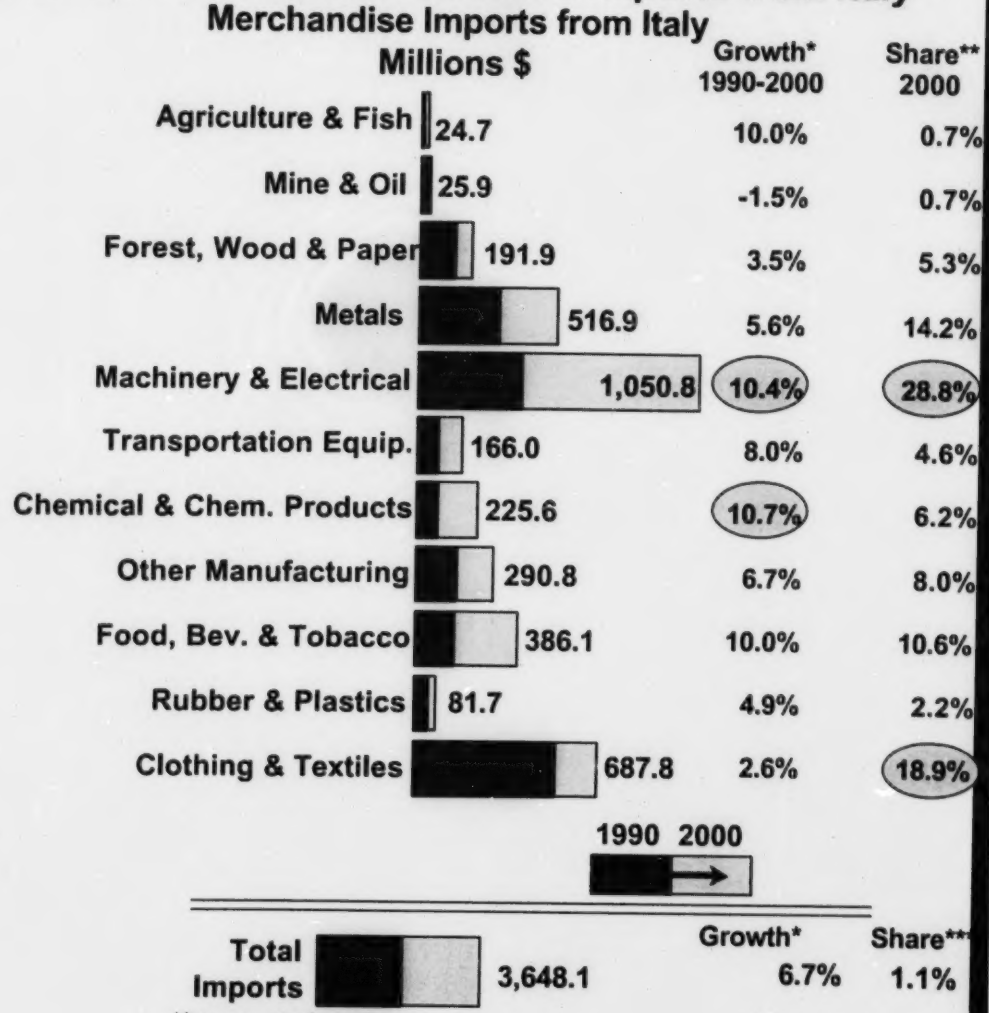

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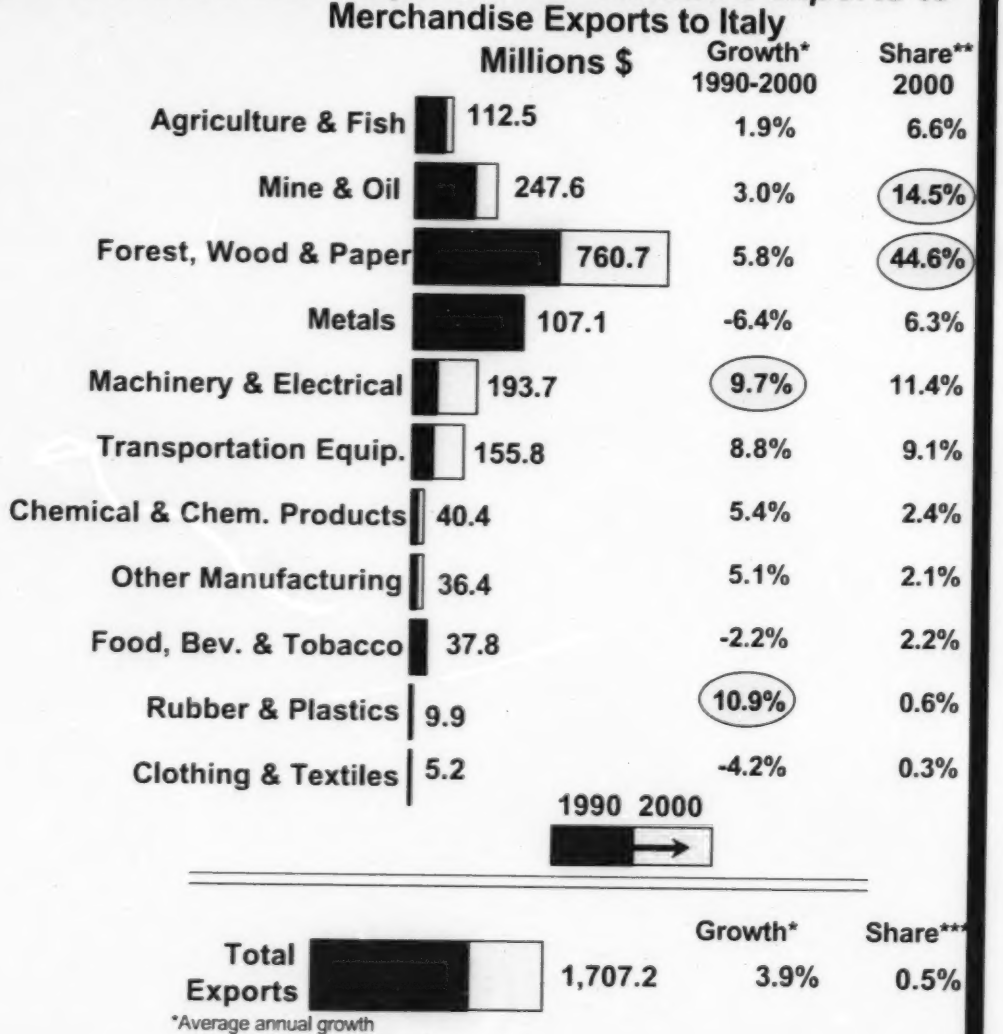

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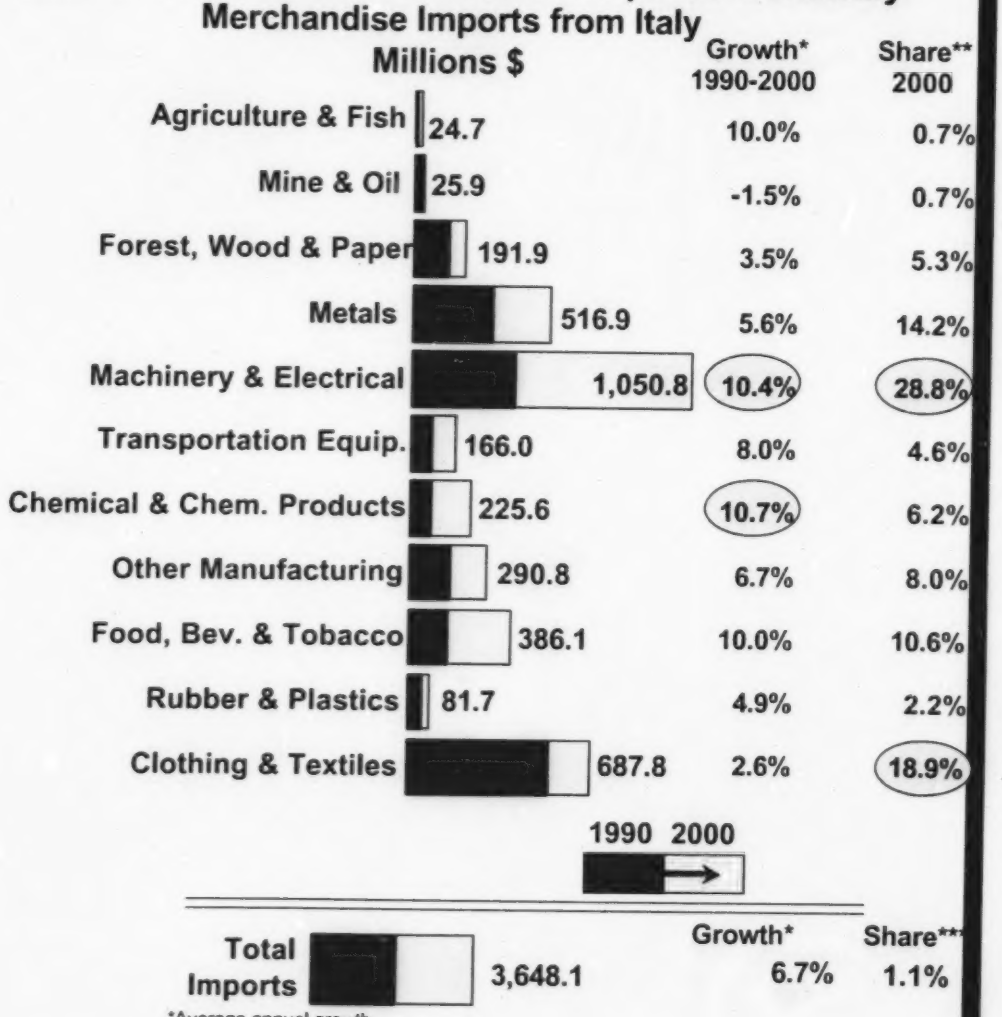

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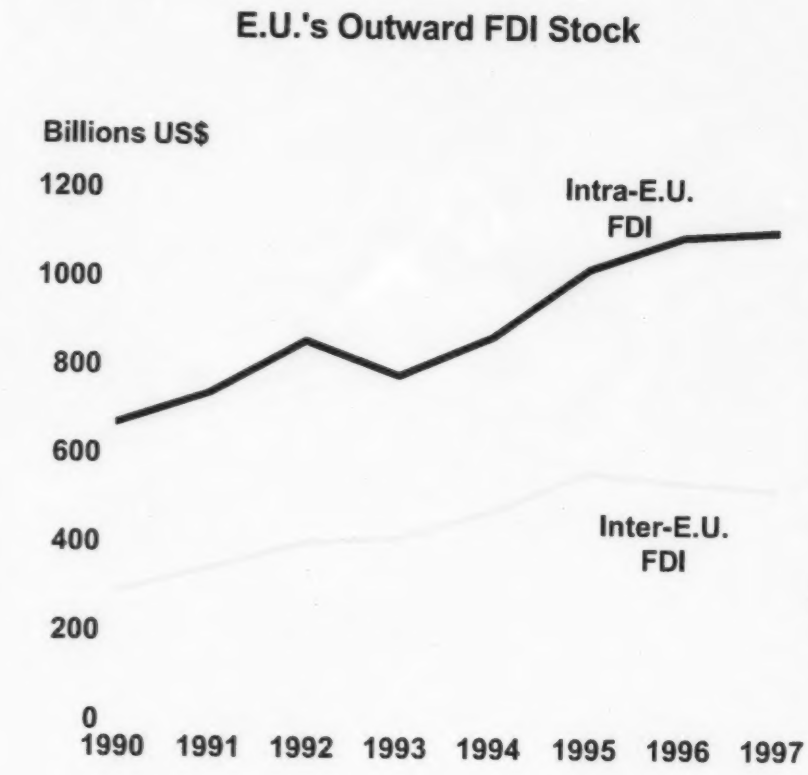
E.U. outward direct investment has increased by more than 70 percent between 1990 and 1997

- **Outward FDI of E.U. countries increased by more than 70 percent between 1990 and 1997, rising from US$960 to US$1,637 billion.**
- **Almost one-third of this total is bound for other E.U. countries, and this share is increasing — from 30 percent in 1990 to 32 percent in 1997.**

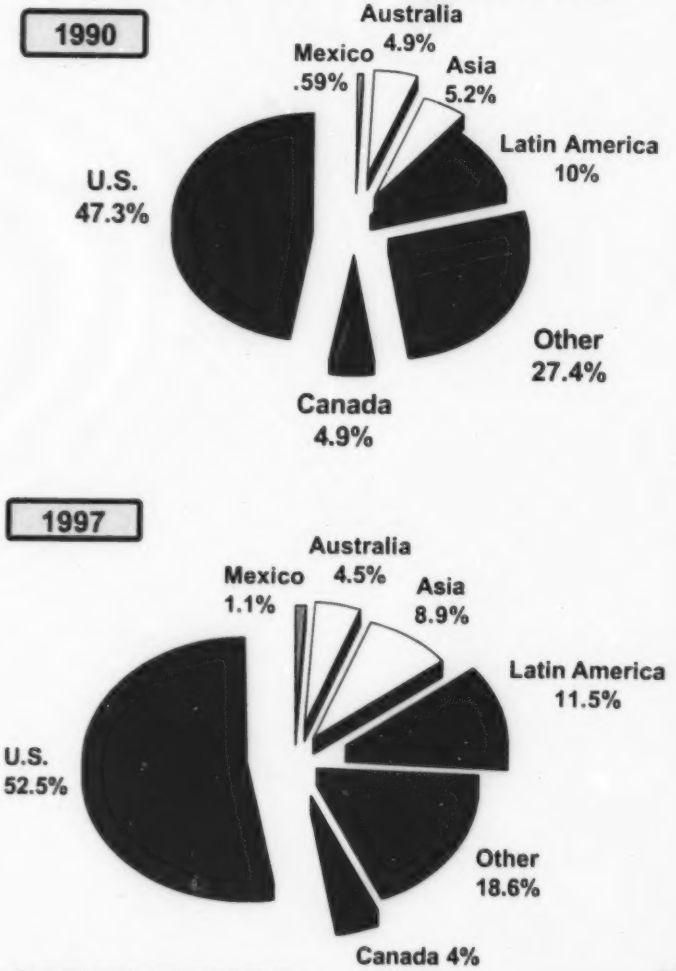


Source: Industry Canada compilations based on OECD data

Canada is getting a smaller share of E.U. outward investment

- **Between 1990 and 1997, Canada's share of E.U. investment (excluding intra-E.U. investment)) fell from 4.9 percent to 4.0 percent.**
  - **This decline represents a loss of about US$10 billion in investment.**
- **The U.S.share increased over 5 percentage points during this period, while Mexico almost doubled its share, although from a very small base.**

Distribution of E.U.'s Outward FDI Stock (excluding intra-E.U. investment)



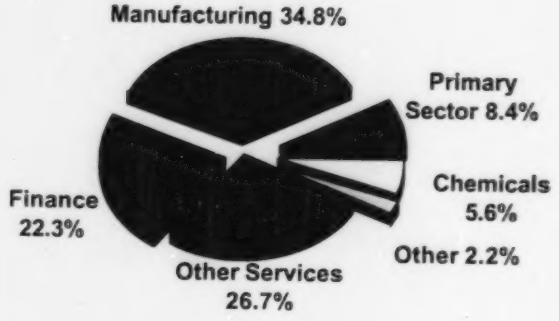
Source: Compilations based on OECD data

E.U. outward investment in Finance and Chemical industries is growing

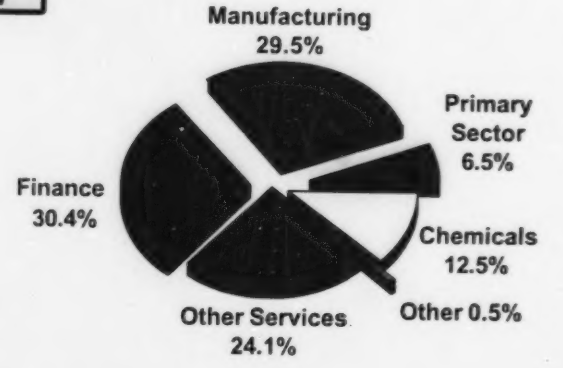
- Between 1990 and 1997, the shares of Finance and Chemicals industries in total E.U. outward FDI increased from 22.3 percent to 30.4 percent and 5.6 percent to 12.5 percent respectively.

Industry Distribution of E.U.'s Outward FDI Stock

1990



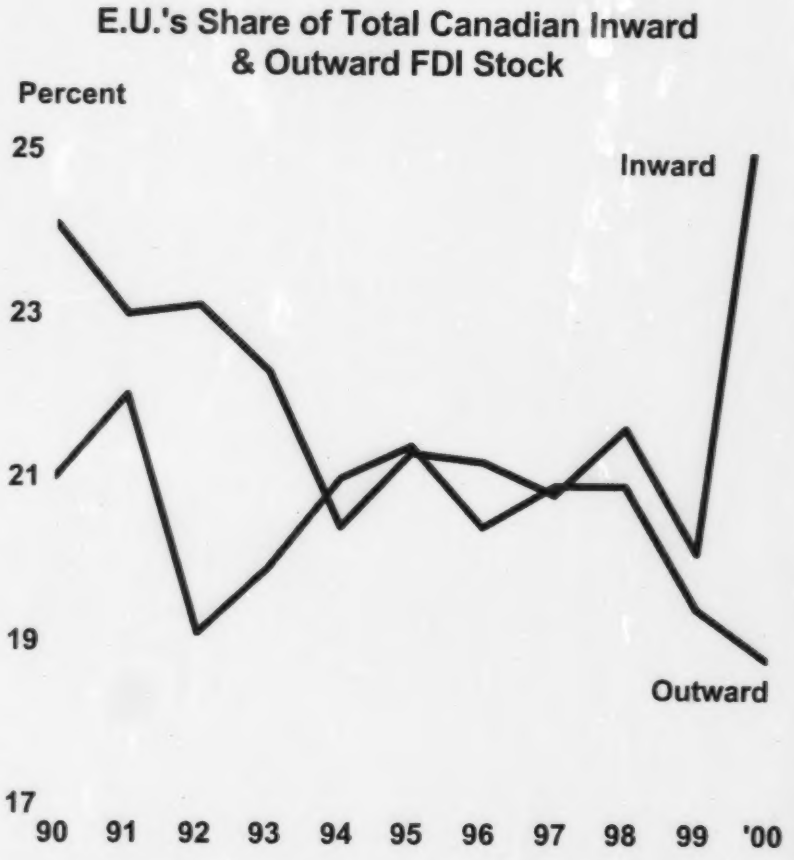
1997



Source: Compilations based on OECD data.

The E.U.'s share of Canadian inward and outward FDI declined over the 1990s but inward investment rebounded strongly in 2000

- Between 1990 and 1999, E.U.'s share of Canadian outward FDI stock fell from 21 percent to 19.4 percent while E.U.'s share of Canadian inward FDI stock declined even more, dropping from 24.1 to 20.1 percent.
- In 2000, E.U.'s share of Canadian inward FDI rebounded considerably, increasing 6.6 percentage points to 26.7 percent due to large acquisitions mostly by France and the Netherlands. E.U.'s share of Canadian outward FDI continued to decline to 18.8 percent.

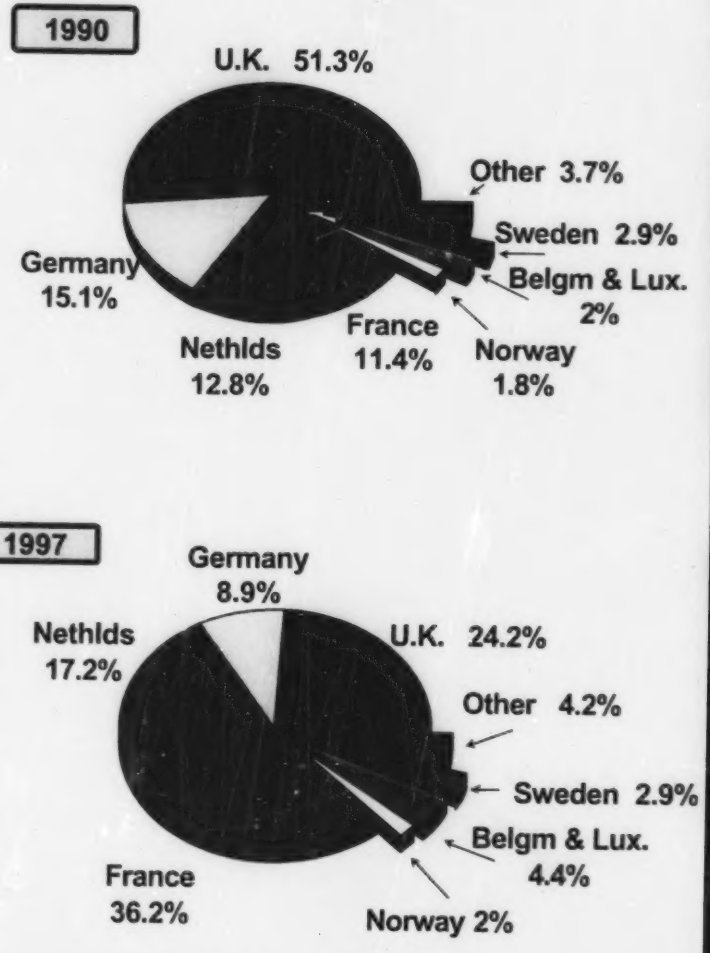


Source: Industry Canada compilations based on Statistics Canada data

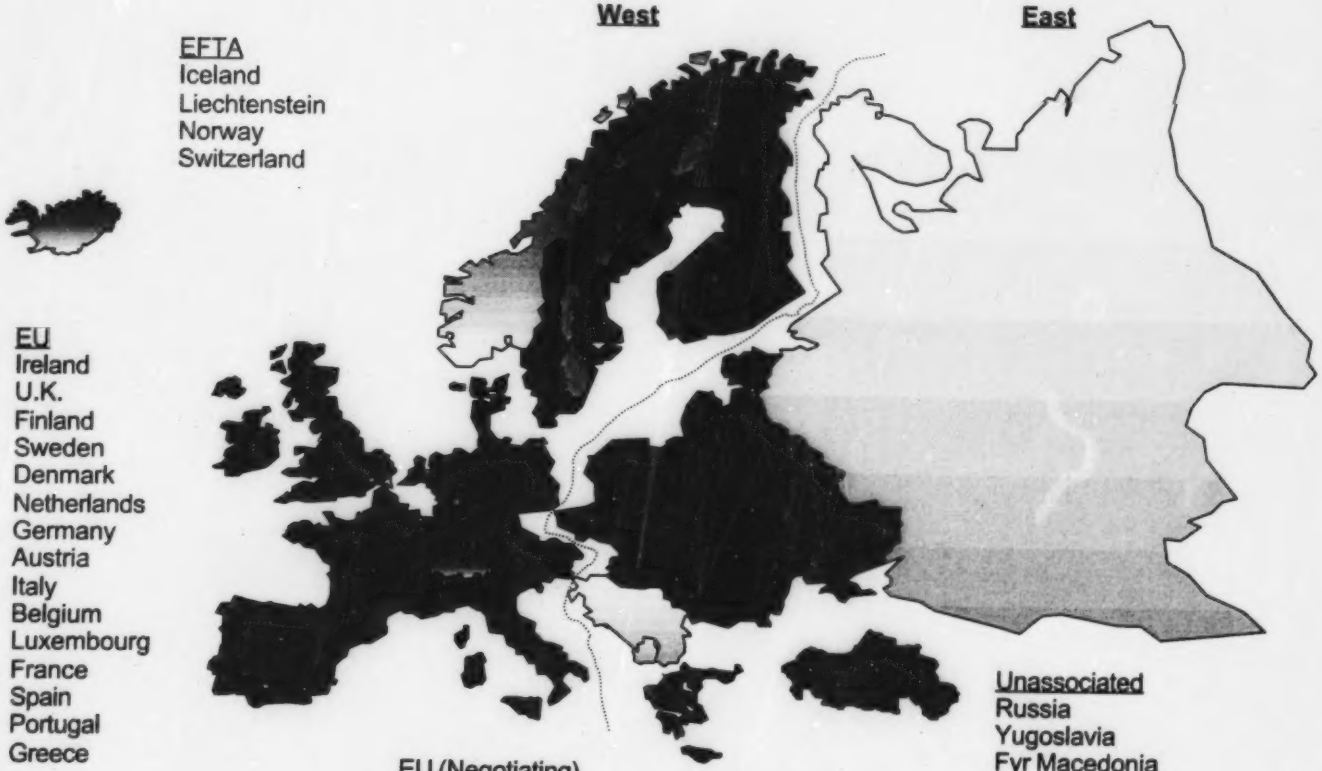
France is now our most important source of FDI from the E.U.

- Over the 1990s, there was a dramatic shift in investment from the E.U. in Canada, away from traditional sources such as the U.K. and Germany towards France and the Netherlands.
  - France's share almost tripled between 1990 and 1997, reaching 36.2 percent. On the other hand, U.K.'s share fell from 51.3 percent to 24.2 percent.
- There was also an increase in foreign investment in Canada from the small E.U. countries such as Norway, Belgium and Sweden.

Canada's Distribution of Inward FDI Stock from E.U.



Source: Compilations based on Statistics Canada data


West
East
EFTA
Iceland
Liechtenstein
Norway
Switzerland
EU
Ireland
U.K.
Finland
Sweden
Denmark
Netherlands
Germany
Austria
Italy
Belgium
Luxembourg
France
Spain
Portugal
Greece
Unassociated
Russia
Yugoslavia
Fyr Macedonia
Bosnia
Croatia
EU (Negotiating)
Bulgaria
Rep.
Cyprus
Estonia
Slovenia
Hungary
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Malta
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